

cal prof
outlook

Australia	82.00	Indonesia	82.00	Philippines	82.00
Belgium	82.00	Iran	82.00	Portugal	82.00
Canada	82.00	Israel	82.00	Saudi Arabia	82.00
Cyprus	82.00	Italy	82.00	Spain	82.00
Denmark	82.00	Japan	82.00	Sweden	82.00
France	82.00	Lebanon	82.00	Switzerland	82.00
Germany	82.00	Lithuania	82.00	Taiwan	82.00
Greece	82.00	Madagascar	82.00	Thailand	82.00
Hong Kong	82.00	Mali	82.00	Turkey	82.00
Ireland	82.00	Morocco	82.00	USA	82.00
Italy	82.00	Norway	82.00	West Germany	82.00
Japan	82.00	Poland	82.00	Yemen	82.00
South Africa	82.00	Portugal	82.00		

EUROPE'S BUSINESS NEWSPAPER

FINANCIAL TIMES

LOMBARD

The hurdles EMU has to jump

Page 16

D 8523A

FT No. 31,139

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Thursday May 3 1990

World News

Thief grabs £292m in UK daylight robbery

The Bank of England injected some £292m (£410m) of extra liquidity into London's money markets after a City messenger was robbed of Treasury Bills and certificates of deposit worth £292m.

The Bank also agreed to protect the owners of the bonds against any losses and issued an alert to banks to beware of anyone trying to raise a loan using the bonds. Page 18

D-Mark swap agreed

The Germans have reached a compromise on monetary union that will allow older East Germans to swap up to 6,000 Marks at par. Page 18

Overhaul planned

The US said the list of strategically sensitive exports to eastern Europe and the Soviet Union now covered by multi-lateral licensing requirements should have "a complete overhaul" by the end of this year. Page 18

Rival parties' pact

Hungary's two strongest political parties announced a pact to end their bitter rivalry at the inauguration of the country's first democratically elected parliament in more than 40 years. Page 18

Mediation appeal

Vytautas Landsbergis, president of the breakaway Soviet republic of Lithuania, appealed to West Germany and France to help open negotiations with the Soviet authorities. Page 18

Poland assured

Senior Foreign Ministry officials from Poland and the two Germanys are to meet today for the first time to discuss a planned treaty under which a united Germany will recognise Poland's western frontier. Page 18

UK local elections

Local elections take place today throughout England and Wales. The ruling Conservative party is preparing for widespread losses to the Opposition Labour Party, but hopes to retain control of the "flagship" councils and has called in the House of Commons to the aid of opposition to the recently introduced Community Charge. Details, Page 11

Emergency ends

Afghan President Najibullah ordered that a state of emergency which has been in effect in Kabul for more than a year will be lifted tomorrow. Page 18

Unity advanced

The leaders of North and South Yemen advanced the union of their two states by six months to May 26. Page 18

Illegal export charge

The managing director of one of the companies at the centre of the Iraqi supergun affair was charged with illegally exporting equipment. Earlier story, Page 12

New rights in Nepal

Nepal's new Prime Minister Krishna Prasad Bhattarai said freedom of speech will be protected in a new constitution. Page 18

Taiwanese offer

President Lee Teng-hui offered the premiership to Taiwan's top military official in a move that the opposition termed a step backwards for democracy. Page 18

Damages for Sweden

A Swede who won an appeal against his conviction for the 1986 murder of Prime Minister Olof Palme was awarded SEK300,000 (£49,000). Page 18

Questions on fire

Libya is questioning two West Germans about a fire at a Libyan chemical plant in March. Page 18

Black out

Saboteurs dynamited a major electrical transmission tower in Guatemala City, blacking out most of the country. Page 18

Business Summary

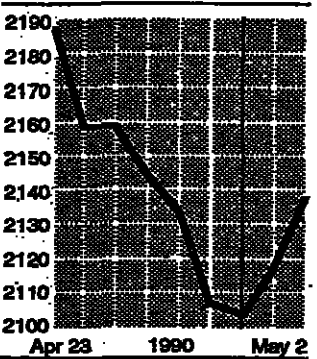
US intends to 'overhaul' sensitive exports rule

THE BUSH Administration yesterday said the list of strategically sensitive exports now covered by multi-lateral licensing requirements should have "a complete overhaul" by the end of this year. The White House acknowledged that "careful study indicates that most of the goods and technologies that we currently control to eastern European and Soviet destinations are of low strategic value and should be decontrolled." Page 18

MARKETS: UK futures market

again came to the help of London stocks, and share prices made further progress despite the shadow ahead of today's voting in the British local elections. In Tokyo currency stabil-

FT-SE 100 Index



ity and expectations of future strength in equities encouraged broad-based buying. Most leading European bourses made gains but disappointing earnings left the Netherlands lower. Wall Street registered small gains by mid-session. Back Page, Section II

WILLIAMS Holdings is selling

its Crown Berger paints businesses in the UK and Ireland to Sweden's Nobel Industries for an initial £205m (£38m) in cash. Up to £36m more will be payable if Crown's sales achieve the £30m budget this year. Page 18

GATT director-general Arthur

Dunham hailed the US decision not to impose immediate sanctions against Japan as a turning point for the Uruguay Round of trade negotiations. Page 8

AUSTRALIAN regulatory

authorities moved quickly to prevent Mr Robert Maxwell, the British media proprietor, from acquiring a 14.9 per cent stake in the Bell Group, a 74.5 per cent media subsidiary of Bond Corporation Holdings. Mr Alan Bond's troubled master company. Page 19

COSTA RICA and foreign bank

creditors are set to begin signing on Saturday an agreement which will reduce the country's bank debt service bill by almost three-quarters. Page 10

ASIAN Development Fund,

the soft loan window of the Asian Development Bank, is set for a \$500-\$60m replenishment from donor nations Page 7

DSM, Dutch chemical group

which was partially privatised in an international launch last year, reported an 18.5 per cent fall in first-quarter results, following the trend set by Akzo, the other big Dutch chemical concern, last week. Page 21

GENERAL RE, largest reinsurer

group in the US, announced a 5 per cent increase in first quarter net income per share, excluding realised capital gains. Page 20

AUSTRALIAN Stock Exchange

announced plans to close two of its four trading floors and move towards fully automated dealing. Page 26

COARSE grain consumption

could outstrip production for the fourth consecutive year, reducing stocks to their lowest level since the mid-1980s, the International Wheat Council believes. Page 32

Freed hostage names other captives held in Beirut

By Our Foreign Staff

MR FRANK REED, the American freed by a group of pro-Iranian kidnappers in Lebanon on Monday, yesterday provided further proof that the other western hostages are alive and well by naming two British and two American hostages he had been held with. Speaking in Wiesbaden, West Germany, Mr Reed said he had spent long periods of time in captivity with other western hostages, and had seen British journalist Mr John McCarthy and teacher Mr Brian Keenan last Saturday. His comments were further evidence that most Lebanese

Islamic kidnap groups are linked, despite their various pseudonyms.

"I have been with John and Brian since last October," Mr Reed said, adding that he had also previously seen American Mr Tom Sutherland and "Terry" - thought to be reference to American journalist Mr Terry Anderson, rather than Mr Terry Waite, envoy for the Archbishop of Canterbury.

A senior official of Hizbollah, the pro-Iranian umbrella organisation behind the kidnappings, yesterday said that if the remaining six US hostages were to be freed, Washington

would have to put pressure on Israel to free its Shia Muslim Lebanese prisoners. They include Sheikh Abdel Karim Obeid, the Hizbollah cleric kidnapped by Israeli forces last year.

Mr Bush hinted delicately this week that he wants Israel to free Sheikh Obeid, saying he had "no objection" to such a move.

Although he has publicly ruled out striking a deal with the kidnappers, Mr Bush has praised Iran and Syria for their role in the recent release of Mr Robert Polhill and Mr Reed, and indicated a softening of

Washington's stand against the Islamic government in Tehran. In the Netherlands yesterday, US and Iranian officials are believed to have made significant progress in talks aimed at settling mutual financial claims arising from the 1979 Iranian revolution.

Mr Abraham Sofaer, legal adviser to the US State Department, and his counterpart in Tehran, Mr Goudarz Eftekhari, are thought to be near an agreement on small claims - those worth less than \$250,000 - pending at the Iran-US Claims Tribunal in The Hague.

Mr Sofaer and Mr Eftekhari enjoy good personal relations and have sought to expedite the slow Tribunal process through bilateral talks. An agreement on small claims would bode well for a settlement of other cases and for broader relations between the two sides.

Mr John Kelly, US Assistant Secretary of State, was in Algeria yesterday as part of a tour of North Africa and is likely to have discussed Lebanon and the hostages. Algeria has acted as mediator between the US and Iran.

The British Government and relatives of the British hostages expressed delight at Mr Reed's news yesterday, but Hizbollah's demands and the deep divisions in Iran over the hostages militate against an early end to the hostage crisis.

Four British people out of a total of 15 westerners, are still held hostage in Lebanon. The difficulties confronting the British hostages were underlined yesterday when the Home Office in London disclosed that an Iranian student had been expelled on Tuesday "for reasons of national security". He was the 10th Iranian ordered out this year.

Brussels seeks new powers in airline pricing

By Tim Dickson in Brussels and Paul Betts in London

THE European Commission is seeking further powers to stop predatory pricing and other anti-competitive behaviour by Community airlines to guarantee the deregulation of European skies by 1992.

The EC is particularly concerned that established national carriers risk squeezing out smaller airlines by predatory pricing policies and unfair inducements to travel agents.

If adopted by member states, the proposed amendment to the EC's competition regulations will enable Brussels to step in to suspend certain practices immediately pending further investigation, rather than using its current procedures which involve a three to four months delay.

"The proposal reflects the aim of creating a liberalised single market in air transport in which competition is maintained and the consumer benefits," an EC official said.

"That is especially important where a small airline is trying to establish itself in the market, or a newcomer is offering new competition by new schedules or lower prices. If we don't act quickly the small airline will go out of business," the official added.

The move coincides with a growing controversy in the UK airline market following allegations yesterday by Mr Michael Bishop, chairman of British Midland Airways, of predatory behaviour on the Glasgow-London Heathrow service by British Airways.

Mr Bishop also attacked BA's dominant position at Heathrow, the UK's leading airport, and renewed his opposition to BA's planned acquisition of a 20 per cent stake in the new Sabena World Airways group.

BA vigorously rejected British Midland's allegations of predatory practices, denied it was making losses on domestic routes and said it did not divulge individual route results for commercial reasons.

In turn, it accused British Midland of not seeking competition. "They are seeking protection from competition by substitution of themselves for British Airways or other UK airlines," BA said.

The problems of smaller airlines have also been highlighted this week by the bankruptcy of German Wings, a recent start-up independent airline based in Munich.

Practices which may be regarded as predatory include providing so much capacity on routes that other airlines find it difficult to sell their services; charging fares appreciably below the carrier's full cost; or granting loyalty benefits to passengers "which artificially maintain their loyalty to a specific airline other than the one which is charging the low fares".

British Midland's complaint involved allegations that BA had boosted capacity and frequencies on the Glasgow-Heathrow service to drive out competition. BA said it had increased daily flights to Glasgow in response to demand.

Under the new EC proposals, Commission officials stressed that member states would be kept in touch with the Commission on matters of competition within the fields

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Pretoria and ANC begin historic talks



Historic talks between South Africa's white minority government and the African National Congress (ANC) about ending apartheid began yesterday with Mr Nelson Mandela calling for an end to the "master and servant" relationship, writes Patti Waldmeir in Cape Town.

In the opulent garden of magnificent Groote Schuur mansion in Cape Town, South Africa's two most powerful politicians, President F.W. de Klerk and Mr Mandela, deputy president of the ANC, stood side by side for their first joint press conference.

Mr Mandela will have talks in London with Mrs Margaret Thatcher, the British Prime Minister, on July 3 and 4, it was officially announced yesterday. Mrs Thatcher originally invited Mr Mandela to visit Britain on February 11, the day he was set free after having spent 27 years in jail.

Framed against the white-washed gables and varnished teak windows of the house both men spoke of democracy and peace, and hailed the meeting as a step towards a solution to South Africa's problems. This view was disputed by the ultra-right Conservative Party, whose 39 MPs staged a walkout from parliament in protest.

The immediate aim of the talks, which are set to end tomorrow night, is to remove obstacles to discussions on the real issues: a constitutional system to end apartheid and give the vote to the country's unfranchised blacks; an economic system which will preserve South Africa's relative

prosperity on the African continent but distribute the fruits of prosperity much more widely.

The two sides met for four hours before adjourning for a working dinner. In a joint statement issued last night they said the meeting had focused on "a general exposition" by the ANC and the government of obstacles in the way of constitutional negotiations. These included the release of political prisoners, return of exiles and the question of the ANC's armed struggle.

Continued on Page 18

Philips seeks up-market image with stake in Bang & Olufsen

By Laura Raun in Amsterdam and Hilary Barnes in Copenhagen

PHILIPS, the Dutch electronics group, is buying 25 per cent of Bang & Olufsen (B&O), the Danish audio and video equipment maker, for DKR340m (£58m) in an attempt to enhance its range of premium products.

Philips, Europe's largest electronics company, is recognised for its high technology, having invented the compact disc and audio cassette. But it has been faulted for weak marketing.

Mr Wim Wilsen, managing director of Philips' consumer electronics audio division, said the group wanted to strengthen its position in the premium market for audio and video products while learning from B&O's design and marketing.

Philips' own label and its Marantz subsidiary are upmarket brands, but B&O appeals to audio and video connoisseurs who are as concerned about the appearance of their equipment as the sound and picture. B&O will continue to market under its own label.

The deal will be accompanied by a restructuring of B&O.

The present Bang & Olufsen will become B&O Holding and the manufacturing operations will become a subsidiary, Bang & Olufsen A/S. Philips will acquire 25 per cent in the subsidiary.

Philips and B&O have rights of refusal on further 25 per cent stakes in each other and the 75-25 per cent relationship cannot be changed unless both parties agree. The deal will not give Philips a place on the B&O board. B&O's share price jumped from DKR415 to DKR490 when the deal was announced.

Mr Vagn Andersen, B&O's managing director, described the deal as a marriage of B&O's talent for design and intelligent application of technology with the genius of Philips in research and development. He stressed the long-term strategic elements of the deal between two companies which have had a long-standing relationship, not least through Philips' supply of components to B&O.

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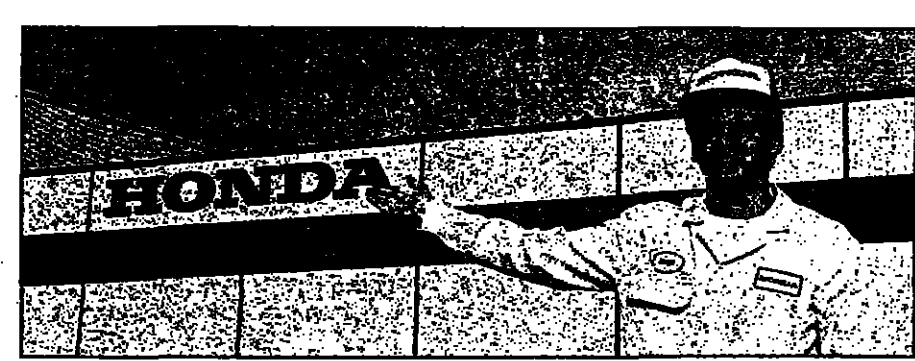
Various agreements on co-operation within the fields of technology, purchasing, components and marketing are expected to be concluded by October.

Philips is paying DKR340m for shares with a face value of DKR167m, taking equity capital in B&O's manufacturing arm to DKR41m.

Bang & Olufsen, which has 3,800 employees worldwide compared with 60,000 at Philips, has staged a strong recovery in profits following a dip in demand for its products after the 1987 stock market crash. It reported pre-tax profits of DKR38m in the year ended May 31, against a loss of DKR18m in 1987-88. The recovery was continued in the half year ended November 30, when pre-tax profits were up from DKR2m to DKR26m and sales jumped 22 per cent to DKR1.18bn as products were launched in the US.

Philips also owns 32 per cent of Grundig of Germany. As a result the European Commission may want to review the deal although Philips could not say yesterday whether Brussels had been notified.

私たちがスウィンドンに来るまでは、誰もその可能性を信じませんでした。



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European union doing nothing is not an option for the UK

Mrs Margaret Thatcher, British Prime Minister, is right in saying other EC members do not know what they mean by political union, but this kind of discourse is simply not accepted across the channel. Page 3

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EUROPEAN NEWS

Poles and Germans in border talks

By Christopher Bobinski in Warsaw

SENIOR Foreign Ministry officials from Poland and the two Germanys will meet here today for the first time to discuss a planned treaty under which a united Germany would recognise Poland's western frontier.

The meeting comes just before the "two plus four" talks on German unification in Bonn on Saturday and during a visit by Mr Richard von Weizsäcker, the West German President, aimed at dispelling Polish anxieties about a united Germany.

"Poland's current western frontier will remain inviolable", Mr von Weizsäcker said yesterday. "Neither today nor in the future do we make any claims whatsoever on territory in Poland or in any other neighbouring country."

He added a warning that "we should be careful that the newly won freedom from coercion under the dictatorships does not cause old antagonisms to break out."

Poland has asked that a formal treaty recognising its western frontier be initiated by both German states before unification and signed thereafter. Today's meeting is expected to focus on this question, regarded as crucial by the Polish Government.

Earlier in Gdansk, Mr Douglas Hurd, the UK Foreign Secretary, met Mr Lech Walesa, leader of the Solidarity trade union.

Mr Walesa expressed concern that "90 per cent of the population were experiencing difficulties" as a result of economic austerity measures. But he pledged support for the Polish Government. "My union



Getting to know the general: President Weizsäcker with Gen Jaruzelski in Warsaw yesterday

will support this Government because we think it is doing the right things," he said.

The Foreign Secretary was in Gdansk retracing the steps of Mrs Margaret Thatcher, the Prime Minister, when she visited the city in October 1988 several months before the fall of the last Communist Government.

Mr Hurd said that the Solidarity leader had told him that "the west must help Poland, must help the private sector, must help to build new enterprises but not through

huge government loans."

Mr Walesa explained that the fact that western businessmen and their counterparts in Poland were still talking different languages was a heritage of "more than 40 years of Communism" and that this should be taken into account.

● The US trade union movement is looking to invest some \$250m worth of its pension funds in Poland over the next five years, according to Mr John Joyce, a deputy chairman of the AFL-CIO trade union

congress, who is on a visit to Gdansk.

Mr Joyce, who is on the movement's pension investment committee, said that he was exploring the possibility of investing \$40m in the country "within the next year."

The American unions wanted to invest in projects identified and backed by institutions like the World Bank, the International Monetary Fund and the US Government's Overseas Private Investment Agency, he said.

Schipol to increase investment in Europe

AMSTERDAM Airport Schiphol, the company operating the Netherlands' airports, will today unveil the first stage of a £1.5bn (\$794m) investment programme aimed at helping the Dutch capital's Schiphol airport become one of the key European hubs in the 1990s, writes Paul Abrahams.

The first part of the project - a £1.18bn pier being opened tomorrow - will increase the airport's capacity from about 18m passengers a year to about 18m. A £1.5bn (\$943m) terminal due to open in 1993 will increase capacity to as many as 27m passengers.

The Dutch airport is facing increasing competition from airport companies in the UK, France and West Germany. BAA, the company which runs Heathrow, Gatwick and Stansted, has invested more than £1bn (\$1.6bn) since 1985 in developing new and existing terminal buildings.

Aéroports de Paris, which controls the Parisian airports, is investing FF1.4bn (\$940m) this year and FF1.9bn next year in an attempt to create a Eurohub.

Lafontaine home

Mr Oskar Lafontaine, the West German opposition's candidate for Chancellor who was almost killed in an assassination attempt, left hospital yesterday with doctors recommending that he give up campaigning, a rest, Reuter reports from Cologne.

Soviet D-Marks call rejected

By Leslie Collitt in East Berlin

THE EAST German Government has rejected a Soviet call for trade to be conducted in D-Marks from July 2, when the West German currency will be introduced in East Germany.

The Soviet demand for payment in hard currency six months earlier than previously agreed was raised during the visit to Moscow last weekend by Mr Gerhard Fohls, the economics minister, as part of a delegation led by Mr Lothar de Maizière, the Prime Minister.

East German-Soviet trade until now has been conducted in transferable roubles on a clearing system basis.

"We are opposed to payments in D-Marks for Soviet oil and gas as it would be very costly for us," Mr Karl-Joachim Haase, the spokesman for the Economics Ministry, said.

Mr Haase said, however, that his Government was prepared to pay large subsidies to companies in order to maintain vital exports to the Soviet Union. Moscow has indicated

that maintained trade is one of its conditions for Soviet approval of German unification. The Bonn Government has also assured the Soviet Union that it will honour East Germany's trade commitments.

In a further demonstration of its economic goodwill toward Moscow, East Germany agreed on short notice to deliver 250,000 tonnes of meat, sausage and consumer goods this year, which are in critically short supply in the Soviet Union.

De Maizière pledges clean up of Bitterfeld

EAST GERMAN Prime Minister Lothar de Maizière, campaigning ahead of local elections this weekend, visited one of Europe's most polluted towns yesterday and promised a costly clean-up package, Reuter reports from Bitterfeld, East Germany.

"We know that the Bitterfeld region has been particularly exploited," Mr de Maizière told the local council.

Bitterfeld, 180km south of Berlin, is a soot-covered town ringed by chemical plants spewing toxic waste into rivers and smoke stacks belching noxious fumes.

"In the past (the Communist government) just took and did not give in return," he said.

Mr de Maizière said his conservative-led coalition, which took office last month, after elections on March 18, felt obliged to improve living conditions in the Bitterfeld region.

Revolt against Moscow gathers pace across Union

By Quentin Peel

THE SIGHT of Soviet demonstrators openly defying President Mikhail Gorbachev and his ruling Communist Party on a May Day parade before the hallowed tomb of Vladimir Lenin was symbolic of the explosion of political debate across the Soviet Union.

It was not just anti-Communist slogans which were belated by radical protesters in front of the mausoleum. The supposedly loyal trade unionists who were the first to march on Tuesday paraded their own hostile criticism of the economic reform process, demanding a national referendum on the plan to switch to a market economy.

In the end, that challenge may be more of a threat to the Soviet leader's ambitions than the demonstrations of the Communist Party.

The event illustrated dramatically how Mr Gorbachev's attempts to liberalise the old autocracy and promote a genuine devolution of power from the centre have set off an often chaotic debate. The plethora of nationalist flags at the parade, including those from rebellious Lithuania, showed the clamour for national autonomy.

The question now is whether the process is still one of devotion, or has become one of disintegration.

The political decision by the Baltic republic of Lithuania to secede was clearly a rebellion against Moscow - although perfectly legal in terms of the Soviet constitution as it stood on March 11. Its disintegrative effort was compounded by President Gorbachev's decision to impose an economic blockade on the republic in an attempt to bring it to heel.

Yet Lithuania is only the most extreme example of a process now under way in many parts of the great Soviet empire. Whether deliberately encouraged or not, the rule and the laws of Moscow are now being more or less openly defied by everybody from individual republics, to regions, cities, enterprises and workers' organisations.

All the Baltic republics now impose restrictions on the goods and foodstuffs that can be bought by non-residents on their territory and taken to other parts of the union. So

THE FIRST Soviet congress of independent trade unions has voted to form a council to unite the country's unofficial workers' groups in a challenge to the state labour movement, Reuter reports from Moscow.

The aim is to unite all forces and to guarantee the rights of working people in this difficult economic situation, said a spokesman in Novokuznetsk, the western Siberian city in which the meeting was held.

The congress expressed support for the breakaway republic of Lithuania and agreed to form an organisation to defend the rights of rural workers. A resolution condemning the Soviet leadership for taking the economy to the brink of collapse was also approved.

does the huge city of Leningrad. They have imposed what amounts to an economic blockade of the rest of the Union.

For example, from May 1, Estonia's Economics Ministry established "export quotas" of wood, leather and fur not only to foreign countries, but to other Soviet republics.

On April 20, the Central Asian republic of Uzbekistan, ruled by a loyal Communist Party leadership, suspended deliveries of many vegetables, fruit and dried fruit to the rest of the USSR until June 1 "in an effort to stabilise its domestic market." Exports of locally produced goods including furniture, TV sets, cars and electrical appliances have been drastically cut, according to Tass, the official news agency.

The Western Ukraine, now ruled at the local level by Ukrainian nationalists is contemplating doing the same - restricting shipments of meat and other farm products.

The region has gone even further. The new rulers of Lvov, the regional capital, have formally adopted the national blue-and-yellow national flag of Ukraine, although they are not a republic.

The old red flag of Soviet Ukraine has been banished to an invisible site at the back door of the council buildings. In the southern Trans-Caucasus, the revolt against Moscow

has taken a host of different forms. The most blatant are in Azerbaijan, where railway workers have been imposing blockades on neighbouring Armenia in total defiance of Moscow for months. Mr Gorbachev, and the Supreme Soviet in Moscow, have ordered that it shall cease. A law was passed outlawing any strike action on the railways and other essential services. All the power of the Ministry of the Interior's troops has failed to lift the action.

Another group of Azerbaidzhan workers, in the town of Baku, seized control of their television station, and refused to transmit national television news, replacing it with local nationalist discussions. In neighbouring Armenia, protesters have been dismantling all road signs bearing the name of Lenin. In Georgia, they have demolished every statue of Lenin in every major town except Tbilisi itself, where it is said to be under permanent guard.



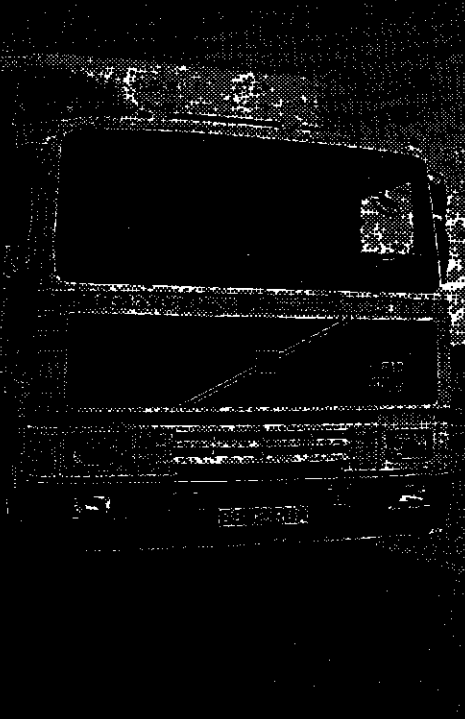
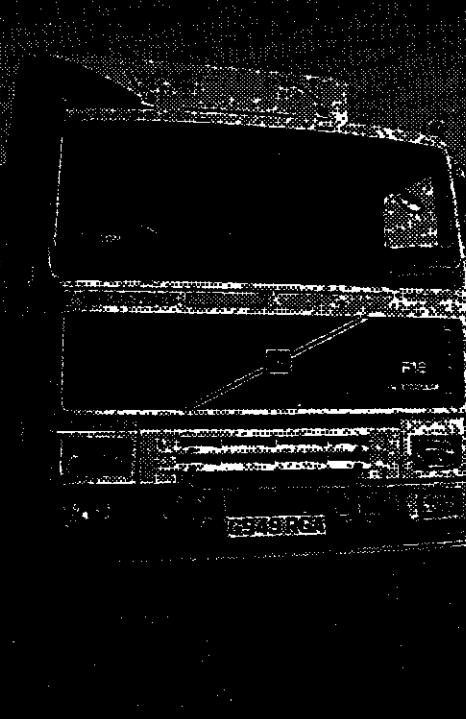
The process of flouting the power of Moscow has gone further. Some regions are simply refusing to enact new legislation, either because they find it too conservative, or too radical. Thus the autonomous republic of Komu has never put into effect restrictions on co-operative businesses approved by the Council of Ministers. Other regions are refusing to register any co-operatives at all.

At enterprise level, the crumbling economy has prompted a host of semi-legal or openly illegal practices. Factories have long been involved in direct barter transactions to get around the bottlenecks of central purchasing. Now they are forced to use other devices, like printing their orders with scarce dollars, to ensure supplies.

As for the workers themselves, the average number on strike each day this year has reached 130,000, compared with 100,000 a day last year, in spite of legislation which sought to outlaw such action in a range of key industries. Indeed, Mr Vadim Bakatin, the Interior Minister, openly admits that the new law gave him no powers to stop the strikes, other than the power of exhortation.

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EUROPEAN NEWS



All smiles at the summit. But Mrs Thatcher's views are increasingly seen as irrelevant

Europe union: do nothing is not an option

MRS THATCHER is, of course, quite right when she says that the other members of the European Community do not know what they mean by the political union they seem determined to pursue. But she is quite wrong if she thinks that the gibe is exclusive, or even relevant. Her kind of discourse may be admired in Downing Street, but it is simply not listened to on the other side of the Channel.

This much is obvious from the unfolding of events in Paris last week, and in Dublin on Saturday. On Tuesday of last

week, the torrent of change in the real world of eastern Europe and the Soviet Union seems to demand a response from the members of the European Community, and to most of them Mrs Thatcher's foot-dragging looks irrelevant and indeed absurd.

The absurdity is, alas, pitifully self-evident. In Dublin Mrs Thatcher proclaimed her determination to protect the British monarchy against any threat from political union in Europe; but the threat she denounced is purely imaginary, since half of the member states are headed by royal families, and none intends to abolish its monarchy in the name of some revolutionary federalism.

But what about her central objection, that the others do not know what they mean by political union, or at any rate have not yet agreed on the meaning? Is this not a fatal charge? Unfortunately for Mrs Thatcher, it is not. The critical dividing line in the Community is not between those who know and do not know what they mean; it is between those who want to do something, and those who want to do nothing.

With the series of setbacks in the Soviet Union, the uncertain consequences of German unification, the quandary of arms control, and the question mark over America's role in Europe, western European countries are faced with a multi-dimensional series of problems which are so complex, so unpredictable, and so potentially dangerous, that they cannot be solved by taking thought. The only plausible policy response is to find firm.

That is the only reasonable explanation of the Franco-German defence undertaking and of the Dublin decision to press ahead with negotiations on political union. There is no more reason to assume an *a priori* agreement on defence policy between France and Germany, than an *a priori* agreement on political union. But France and Germany believe it ought to be in their interest to stick together, and the same goes for the Twelve. As with marriage, so with political union; it's not what you do, it's who you do it with that counts.

When all the familiar cards of international stability are being thrown in the air, doing nothing is not a plausible policy posture, especially if it consists of doing nothing on your own. Perhaps the British Government would prefer to keep Nato as it is, with its existing doctrines of forward defence and flexible response, and with a substantial presence of American ground forces in Germany. But the first two features will simply not be avail-

able, and the third will not be available for very long.

This does not mean that the other members of the Community will enjoy a painless ride towards agreement on political union and European defence.

On the contrary, they face an agonising reappraisal of traditional assumptions and old alignments. If the West is to mount a serious allied defence of western Europe with much lower force levels generally, and with many fewer American troops, it can only be done on two new assumptions: the Europeans will have to bear most of the responsibility for

their own defence, nuclear as well as conventional; and they will all have to engage in an unprecedented degree of military integration, including the French.

That will not be at all easy, and it may be that the political union treaty which emerges from the negotiations will be mostly wind and waffle. But it would be stupid then, as it is stupid now, for Mrs Thatcher to stand and jeer. Her posture of national immobility is not a response to anything, and certainly not to the earth-shaking changes which are taking place in the world around her.

Brussels to extend financial aid to east

By Tim Dickson in Brussels

DETAILED proposals for extending financial assistance to five newly democratised countries in eastern Europe were endorsed in Brussels yesterday, writes Tim Dickson in Brussels.

The European Commission - co-ordinating the so-called Phare programme on behalf of 24 western nations (G24) - agreed that Bulgaria, East Germany, Czechoslovakia, Yugoslavia and Romania should be included.

Areas of support will be discussed by a group of experts from the G24 in three weeks' time, and are likely to form the basis of a full ministerial agreement in June or July.

No commitments have been made on the scale of the enlarged operation, which so far only applies to Poland and Hungary. The 12 EC countries allocated Ecu500m (\$610.0m) for Phare in the 1990 budget. It is likely that this contribution will be increased to around Ecu1bn (\$1.2bn) by 1992.

The principal areas of financial assistance proposed by the Commission are improved access to western markets, food aid, training, the environment, investment and economic restructuring, and financial support.

Commission proposes cuts in truck diesel emissions

By Tim Dickson in Brussels

PROPOSALS to cut pollution from diesel driven lorries by between 40 and 60 per cent were agreed yesterday by the European Commission.

The plan, if adopted by member states, will land industry with a large but as yet unquantified bill to make the necessary adjustments.

It follows the culmination last year of a long and politically charged EC battle to cut emission levels from cars.

Unveiling the new directive at a press conference in Brussels, Mr Carlo Ripa di Meana, the EC's Environment Commissioner, pointed out that "harmful gas from all types of road transport represent 80 per cent of carbon dioxide caused by man's behaviour, 50 per cent of all hydrocarbons, and 60 per cent of nitrogen oxides."

Referring to the much greater use of roads than rail or rivers for the purposes of commercial transport, he commented: "The carriage of transport by road is a cancer which we cannot delay dealing with. The EC must have the will to find solutions to problems that cannot be put off until tomorrow."

One significant dimension of yesterday's announcement is the bearing which the proposed directive may have on

negotiations between the Community and Austria and Switzerland.

Inspired mainly by environmental concerns these two countries have both placed limits on vehicles crossing their territories, though Austria's ban on nighttime driving is

identical to those due to come into effect next year in those two neighbouring states.

Commission officials say that manufacturers have the necessary technology to meet the new standards for diesel motors and that following consultations Brussels believes that a two step approach is appropriate.

The first will come into effect at the same time as the new car emission levels (July 1992-January 1993) with the second tougher regime scheduled for 1996-97.

Mr Michele Lacalamita, President of the Association of European Community Shipowners, yesterday called on the EC to improve the effectiveness of port inspection procedures for vessels.

Commenting on "the number of recent accidents" he said that any developments in the field of safety standards and crew qualifications should be "internationally agreed" and that any EC remedy "would lead to a dangerous proliferation of different and conflicting requirements worldwide."

However, port state control mechanisms were sometimes "lax" and a European co-ordinating body would be welcomed by the industry.

mainly to do with noise.

Mr Ripa di Meana yesterday promised new Brussels proposals on noise limits later this year and pointed out that the new limits for diesel lorries from the Commission would be

Investing in a Blue-Chip Future

IG Metall workers in more wildcat strikes

WEST GERMANY'S largest union disrupted car and electronics production yesterday with a second day of wildcat strikes to push its claim for a shorter working week, Reuters reports from Bonn.

Nearly 70,000 members of the huge IG Metall union across the country stopped work, a union spokesman said.

The Opel car plant in Bochum was the worst hit as 5,500 workers walked out, halting production for several hours.

IG Metall, the western world's biggest union with about 3m members, began its war of nerves with employers with strikes on Monday, the

eve of the May Day workers' holiday.

It wants wage rises of up to 9 per cent and a cut in weekly working hours to 35 from 37. Employers have offered a 5 per cent increase over 15 months and to discuss a cut in working hours in 1993.

The threat of a major strike, coupled with inflation fears based on the introduction of the West German mark into East Germany in July in preparation for unification, pushed the mark down on foreign exchange markets on Wednesday.

"It looks like things are heating up and the positions are being drawn for a major battle," one trader said. "And that would be bad news for West Germany and the mark."

Yesterday's strikes also hit Audi carmakers and the electronics firm Telefunken in the south of the country. More warning strikes are planned for today, Friday and Monday.

A three-year contract between the union and employers expired at the end of March. During a 30-day cooling off period, which ended on Sunday, unions were not permitted to call strikes, nor could employers lock out workers.

Union leaders have pledged that if they do not achieve their aims in talks resuming on Thursday, they will decide next week whether to hold a strike ballot for members.

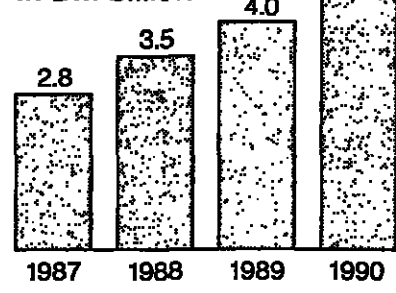
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EUROPEAN NEWS

Romanians intent on breaking their long silence

Owen Bennett-Jones in Bucharest reports on an electorate developing an enthusiasm for campaigning

A DEMONSTRATION on University Square in the centre of Bucharest which has been running almost continuously for a week now, seems to symbolise an electorate which, kept quiet for decades, now seems intent on making itself heard.

Even a dawn raid by the security forces failed to dampen the enthusiasm of the protesters. In fact, it had the opposite effect, as the authorities have tacitly admitted by their subsequent inaction.

Since that intervention, a crowd, the size of which fluctuates between 200 and 5,000, has resolutely yelled anti-government slogans and displayed not the slightest intention of moving.

Take a recent electoral rally of Mr Radu Campeanu, the National Liberal Party candidate, in the Transylvanian town of Sibiu. He addressed a crowd of about 3,000. The majority were his supporters but about 500 had come to heckle on behalf of the National Salvation Front. It looked like a situation with violent potential but instead developed into a singing competition between the two groups.

"Down with Iliescu" and "Terrorists" shouted the Campeanu supporters. "Up with Iliescu" and "Victory is Ours" came the reply from the others.

But when one man went so far as to throw a crumpled up piece of paper at the other camp he was immediately reprimanded by everyone around him. The chanting went on for several hours before the crowd dispersed and people returned to their homes.

It's an auspicious start to a campaign that has now begun in earnest with three candidates officially in the field. Mr Ion Iliescu, the interim President and leader of the National Salvation Front is the favourite to win but opposition strategists argue that they still have a chance if they can force the vote to a second round.

With the deadline for nominations now closed, the three candidates are Mr Iliescu, Mr Radu Campeanu and Mr Ion Ratiu of the National Peasant Party. While the opinion polls published in Romanian newspapers are probably not very reliable, they are at least consistent in putting Mr Iliescu at the top of the popularity ratings.

His personal support, however appears to be lagging behind that for his party, the National Salvation Front. While the front consistently polls 50 per cent to 60 per cent support, Mr Iliescu himself typically attracts around 40 per cent. Mr Campeanu though, apparently draws a similar degree of support as his party.

between 30 per cent and 40 per cent.

Mr Iliescu's chief handicap is his record as a Communist Party official. Opposition activists have been circulating pictures of Mr Iliescu playing chess with the former dictator Nicolae Ceausescu.

Mr Campeanu, meanwhile, is having to fend off criticism that he did not suffer the privations of life under the Ceausescu regime but rather enjoyed a luxurious life-style and according to the ever-active rumour mill, a decadent one at that when he was living in exile in France.

The third candidate, Mr Ion Ratiu, head of the National Peasant Party, are polling between 5 per cent and 10 per cent. Supporters account for the low figure by arguing that the polls are based on samples from the big cities and therefore miss much of the peasant party support.

Nevertheless it's unlikely that Mr Ratiu, a reputed millionaire, who is widely perceived as having been selected by the Peasant Party for the resources he would bring to the organisation, will be able to challenge the two front runners. He has already declared that he would back Mr Campeanu in a second round.

But that may not be of too much concern to an opposition whose chief hope is to prevent



President Ion Iliescu: facing increasing opposition from anti-government demonstrators

Mr Iliescu from scoring more than 50 per cent support in the first round election on the May 20.

Under Romania's electoral law, if no candidate polls more than 50 per cent, then a second round of voting will be held on June 3 in which the two leading candidates will fight it out.

There is little to choose between any of the candidates' policies. The National Salvation Front has issued the most detailed programme but more often than not it falls back on bland generalities. In fact, all of the party manifestos read like hastily assembled lists of desirable objectives. And by

and large they are all the same with successive paragraphs describing the importance of pluralist democracy and the introduction of some markets into the economy.

On economic policy the Front, like the other parties, favours the immediate privatisation only of small businesses. There seems to be a consensus that control of the large enterprises and those of "strategic importance" should remain in the Romanian Government's hands. Unlike the other parties, however, the Front specifically supports allowing foreign companies to own 100 per cent of Romanian enterprises, although it fudges on the whole question of the repatriation of profits.

This would maintain the position taken by the interim government and goes further than the opposition parties which all talk about encouraging only joint ventures. Mr Ratiu, if should be said, parts company with the National Peasant Party on this point saying that he welcomes any form of foreign investment in the country.

And the Front programme does go into some detail on price reform. Citing anticipated difficulties with abandoning the present rigidly controlled price system, the Front says that in the short term, it will maintain prices both between

enterprises and for retail goods at their current levels.

In the agricultural sector the Front supports giving land to the peasants for their private use. But in a caveat not mentioned by the other parties it would not allow the peasants to sell this land but that they could only pass it on to their children. This measure, the Front argues, will prevent any one landowner dominating the economy of a village.

But as the parties themselves know, the election is not going to be fought on policy issues: it is a battle for an electorate whose concerns and motives do not extend to the fine detail of, for example, the plans for privatisation. The question rather is, who do the people trust?

The established post-revolutionary leader, Mr Iliescu, or the man who says that the Front is too supportive of the old Communist structures, Mr Campeanu.

The electorate seems satisfied with the post-revolutionary government. This is associated only with Mr Iliescu despite the fact that the opposition has 50 per cent representation in the provisional council for national unity.

Mr Iliescu is credited with having provided more food, heat and light in three months than the Ceausescu regime could deliver in 25 years.

Short extension to shipbuilding subsidies system

By Lucy Kellaway in Brussels

THE EUROPEAN Commission has proposed that its system of subsidies to shipbuilders should be extended for a further two years, rather than the five years hoped for by the industry.

The shorter period will give the EC more flexibility in negotiating within the OECD an international agreement on shipbuilding subsidies. The Commission hopes that by the time the new directive expires a broad agreement will have been reached on the phasing out of all subsidies allowing the industry to move gradually towards free competition.

Under the present directive, which expires at the end of this year, the maximum subsidy permitted to the European shipbuilding industry is fixed by the Commission and is currently at 20 per cent.

This level has been steadily reduced as the rules in the industry have changed. The Commission said yesterday that any further changes would be downwards.

The new directive will bring Spain and Portugal under the rules for the first time, and also contain tighter provisions than before on aid to shipbuilding.

● An Ecu200m (\$360m) bid for developing energy networks in the poorer parts of the community was agreed yesterday by the European Commission. The money will go towards building a natural gas network in Greece and Portugal, towards establishing connections between the electricity and gas networks in the Southern States, and connections between the gas networks of Ireland and the UK.

Turkey scraps plans for Kurdish camp

TURKEY has scrapped a United Nations-sponsored project to build homes in central Anatolia for 13,000 Iraqi Kurdish refugees, a UN official said yesterday, Renter reports from Ankara.

"We have been informed by the Turkish Foreign Ministry on April 28 that the project, as its stands, would be stopped," Daniel Conway, representative of the United Nations High Commissioner for Refugees said.

He said over \$14m had been pledged internationally for the housing project in Yozgat province, 220km east of Ankara, and some of the funds had already been paid.

Turkish Foreign Ministry spokesman Mr Murat Sunar said the project had been stopped after reaction from the people of Yozgat who had formed committees to block the settlement of the Iraqi Kurds.

About 13,000 of some 36,000 Iraqi Kurds who fled over the Turkish border in July and August 1988 to escape Baghdad's military drive in the north, are living in a tent city

in Turkey's south-eastern Mardin province.

"The Iraqi refugees in Mardin did not want to settle in Yozgat city," Mr Sunar said. "We simply do not know what to do with the money or pledges," Mr Conway said.

"Some donors have made their pledges conditional on being used in Turkey," he added.

The project came from the United States with \$5m, the EC with \$1.2m and Finland and Japan with \$1m each. Turkey refuses to grant official refugee status to the Iraqi Kurds citing an international agreement under which it is not obliged to accept refugees from non-European countries.

● The Government was accused in the Turkish press of taking hasty measures ahead of May Day which ended in violent clashes between protesters and police, Renter adds. Two people were shot and wounded and at least seven policemen injured in Istanbul where demonstrators defied a ban on May 1 celebrations.

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OVERSEAS NEWS

Arab foes step out on road to reconciliation

By Tony Walker in Nicosia

THE ARAB world took a step towards closing ranks yesterday with the visit to Damascus of President Hosni Mubarak of Egypt - the first to the Syrian capital by an Egyptian leader in 13 years.

At the same time, bitter foes, Syria and Iraq were reported to have toned down their media campaigns against each other while efforts continue to resolve their differences.

Mr Mubarak was greeted on his arrival in the Syrian capital with a 21-gun salute and a warm hug from Syria's President Hafez al-Assad. The Egyptian leader's arrival was broadcast live on Syrian television.

The late Egyptian president Anwar Sadat visited Damascus in 1977 shortly before he shocked the Arab world by going to Jerusalem in November of that year. Egypt cut relations with Syria in protest at the virulent Syrian campaign against its peace treaty with Israel. Relations were restored last December.

Mr Mubarak told reporters in Damascus that a process of reconciliation among the Arabs was "a vital and neces-

sary step" to deal with threats to the Arab world.

Arab leaders have been stung into fresh attempts to resolve differences by fears of the threat posed to regional stability by the influx of tens of thousands of Soviet Jews to Israel.

Mr Yasser Arafat, chairman of the Palestine Liberation Organisation, has been campaigning for an Arab League summit in Baghdad later this month to discuss the Jewish immigration issue.

Mr Arafat fears that newly arrived Soviet Jews will flood the occupied territories, foreclosing the possibility of any settlement of the Palestinian question for generations to come.

Egypt and Saudi Arabia have not yet committed themselves to supporting calls for an emergency summit in the Iraqi capital. Their support will depend, it seems, on whether the Syrian and Iraqi presidents can be persuaded to put aside their differences - in only momentary - in the interests of Arab unity.

Presidents Assad and Hussein, the two leaders of rival



President Assad (left) laid on a guard of honour for President Mubarak in Damascus yesterday.

wings of the Arab Baath Socialist Party, have been at loggerheads for 20 years. Syria's support for Iran in the Gulf War further exacerbated their long-standing differences.

President Saddam Hussein is also anxious to secure strong Arab enforcement for what he views as a western-inspired campaign against Iraq. Iraq has come under con-

certed criticism recently in the West over its human rights record and its attempts to acquire a sophisticated arsenal of weapons of mass destruction.

Iranian exiles returning to the economic fold

Industrialists are attracted by an easier political and social climate, writes Scheherazade Daneshkhu

DURING the past year, an increasing number of Iranians have been returning to the land they abruptly left after the 1979 revolution. Many are former industrialists who have gone back to reclaim factories or property taken into government hands.

The climate of change in Iran is such that people who might once have feared for their lives now take seriously the prospect of making a living in their home country.

There are estimated to be 3 million Iranians living outside the country. Many of the more affluent exiles chose to live in Europe, especially in France, Germany and the UK, which is home to some 35,000 Iranians. Many more live in the United States - 200,000 in California alone. There is also a sizeable population of less affluent Iranians living in the Indian sub-continent.

President Ruhollah Rafsanjani has made the restoration of the economy his number one priority. He has singled out the country's lack of productivity - factories are running at around 25 per cent capacity - and a shortage of managers as among the main impediments to growth. Skilled and semi-skilled workers across the board are needed.

Mr Rafsanjani has also said that the key to independence lies in the creation of a wealthy society. "Anyone who is poor and needy certainly cannot raise his head in the world," he said - a far cry from the insistence of the late spiritual leader, Ayatollah Khomeini, that poverty and isolation were a small price to pay for independence.

Mr Rafsanjani has encouraged the return of the exiles and has tried to foster a more relaxed social and political climate to attract them back. In a speech to mark the Persian New Year in March, he urged those who had left "for no reason" to return. Their managerial skills are needed and their gradual return helps create the more stable business climate needed to encourage greater private sector investment, another key Rafsanjani policy.

Last October the government announced that state-owned factories would be put up for sale. But no privatisations have taken place and business reaction is likely to be cautious even if they do. "In theory, it is a great idea," said one businessman. "But you always run the risk of the government changing its mind and deciding to interfere."

Other measures aimed at boosting productivity include the sale of foreign currency at

represented a loss of \$700,000 for the Saipa company which assembled it, but that after delivery it could be sold on the free market for \$2.5m (\$250,000).

President Rafsanjani has also acknowledged that corruption is hindering the government's plans to revitalise the industrial sector. Asked last month why the Central Bank had not disbursed foreign exchange to industry at the competitive rate promised, he replied: "The exporters did not return any of their foreign profits to the Central Bank and the Bank thus refused to give them any more."

If this policy is not proving successful, the government appears to have faced better in attracting back to the country an increasing number of those living abroad. Present estimates indicate that 15 per cent of exiles have returned, though this includes Iranians denied refugee status abroad.

Of those who return freely, the case of Reza is not untypical. He returned to Iran recently for the first time in almost a decade to reclaim his print equipment factory. It had been managed by the government but had not been confiscated.

After a lengthy interview at the Revolutionary Court, he was asked whether he had paid Islamic dues (*khome* and *zakat*). "I had no problems," said Reza. "I had always paid Islamic tax and I even had receipts. Not only were the authorities extremely well organised, they were also very courteous."

But others speak of having to grapple with the harsh "donations" to government institutions are one way out. In one case a businessman donated 80 per cent of his industrial holdings amounting to \$200m (\$164 million at the official exchange rate) to the Ministry of Industry.

Many of those returning for the first time since the revolution are surprised by their reception. One woman affirmed nervously to one of the airport security police that she had lived abroad for over ten years. She looked over and said, "You did the right thing."

Nepalese old guard sets up right-wing opposition party

By K.K. Sharma in Kathmandu

ABOUT 150 right-wing members of the dissolved National Assembly are to form a political party to oppose the new multi-party coalition government, led by Mr K.P. Bhattarai of the Nepal Congress.

The new party, which has not been named and which does not yet have a leader, will be made up of adherents of the former "party-less democracy". Its members include three former prime ministers and 60 former ministers.

The party-less system introduced 30 years ago was the basis of the administration in the Himalayan kingdom until a popular movement for restoration of the multi-party system forced King Birendra to remove the ban on political parties last month.

Since the coalition government took power a fortnight ago, Nepal has been swept by violence directed mainly at the police who, in the people's eyes, symbolise the repression of the last 30 years.

Violence has been curbed in Kathmandu, the capital, by a strict night curfew and army patrols. But it has spread to other towns and provinces, notably Pokhara. Members of both the extreme left and right groups are thought to be behind the violence in which more than 50 people have died in the past week.

The new interim government's main task is to formulate a new constitution for Nepal but it finds itself saddled with a serious law and order problem. This could lead to a situation of near anarchy.

The new political party has been formed to put pressure on the government to restore order and provide protection to all citizens. Its members are directly threatened by the violence.

Although the King is also a target of the instigators of the violence, it is unlikely that he will openly support the new party since he is trying to maintain a neutral position.

The new party, however, plans to contest the first free elections in Nepal when they are held in the next 12 months and expect to cash in on the fact that most people in the kingdom still worship the King as a living god.

Members of the new party allege that the current wave of violence is due to the helplessness of the government to act in the face of intimidation by its communist members.

The authorities, on the other hand, however, feel supporters of the previous system have hired thugs to unleash violence in a bid to damage the image of the government.

Israel cuts water supplies to its subsidised farmers

By Hugh Carnegie in Jerusalem

DROUGHT has forced Israel to cut water supplies to farmers, the main users of the country's already badly depleted water resources, by 35 per cent. Rainfall over the winter rainy season in the main northern catchment areas has been only 70 per cent of the annual average.

The Jordan catchment area, including the disputed Golan Heights, serves water-sky Syria and Jordan as well as Israel and there are longstanding tensions between them over water usage.

Israel also relies heavily on water drawn from aquifers under the occupied West Bank and Gaza Strip where the local Palestinian population complains bitterly of water discrimination against it.

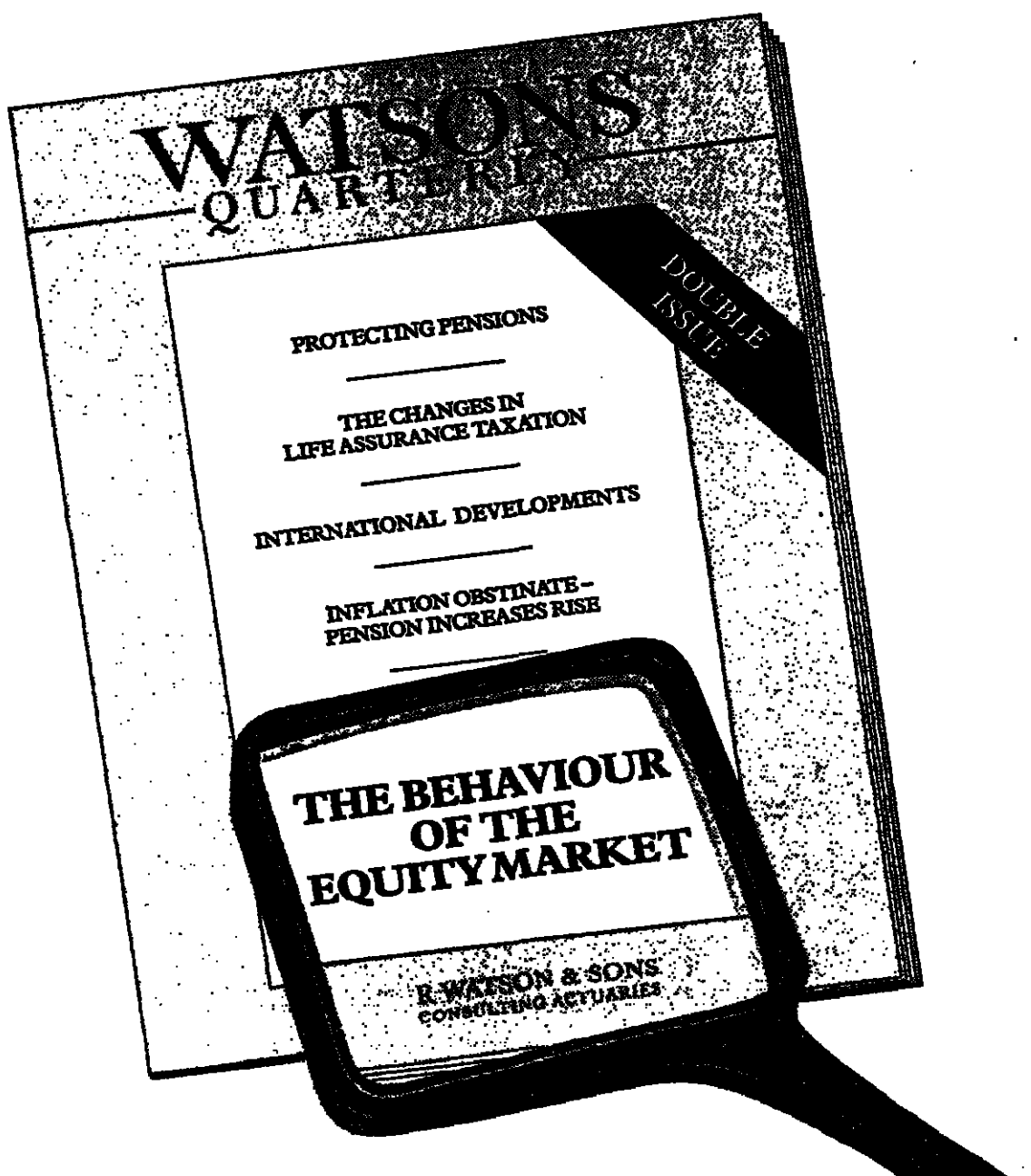
Last week, Mekorot, the Israeli Water Authority, said it was cutting supplies to agricultural users by 20 per cent for the next five months, the main demand period. This was in

addition to previous cuts of up to 15 per cent for farms in the northern Galilee area and 7 per cent in the south.

Agriculture accounts for about 70 per cent of Israel's annual consumption of nearly 2bn cubic metres a year. Recently there has been growing criticism of misuse of water by the heavily-subsidised farms. Some 17 per cent of all water supplies goes to the irrigation of cotton, a crop which is not profitable in Israel.

This year, only one quarter of the 400m cubic metres usually drawn from the Sea of Galilee, a chief water source, will be pumped because of dangerously low water levels.

Over-pumping of aquifers also threatens them with salinisation. The crisis has prompted the authorities to consider importing water from Turkey by sea in special giant plastic barges, although they say this remains at least two or three years away.



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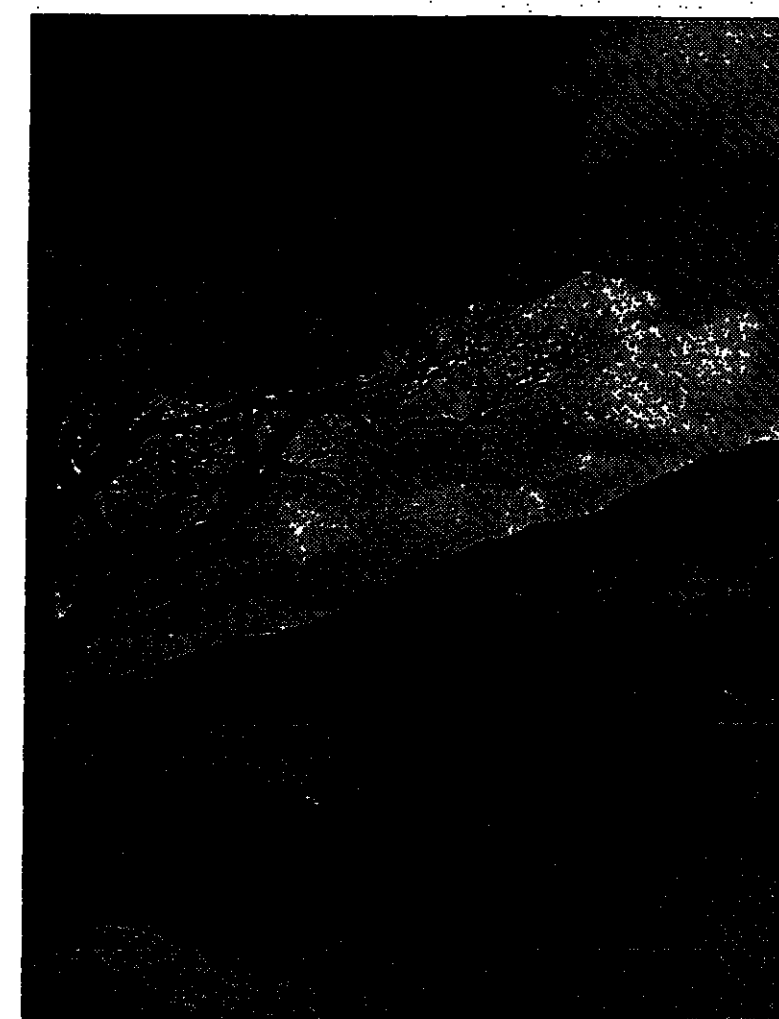
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Better Environment Awards For Industry

OVERSEAS NEWS

First increase for 13 months

Japanese current account surplus widens to \$8.1bn

By Robert Thomson in Tokyo

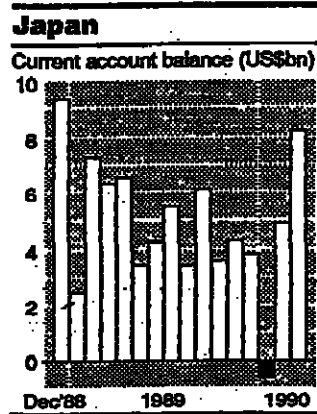
JAPAN'S current account surplus widened during March for the first time in more than a year as the yen's weakness slowed import growth and disrupted the adjustment of the politically-sensitive trade surplus.

The current account surplus in March was \$8.1bn (\$4.93bn) up from \$7.5bn a year earlier, the first increase of its kind in 13 months, while exports increased 3.5 per cent month-on-month to \$23.6bn and imports rose by 1.9 per cent to \$17.2bn.

Balance of payments figures released by the Finance Ministry yesterday showed that the turbulence in Japanese financial markets and end of fiscal year window-dressing by Japanese investors resulted in a significant turnaround in foreign securities holdings.

Net sales of foreign bonds by Japanese for March were \$1.75bn while net sales of stocks were \$257m, compared to net purchases of bonds of \$3.65bn and of stocks of \$2.47bn in February.

Meanwhile, foreigners' net sales of Japanese stocks were \$7.2bn compared to \$2.3bn in



February, as the continuing fall of the Tokyo market prompted investors to reduce holdings.

The balance of payments for the month showed a deficit of \$167m, compared to a surplus of \$16m a year earlier, partly because of a larger deficit in the long-term capital account. For fiscal 1989, the trade surplus was \$70.18bn, down \$25m from the previous year, while the current account surplus was \$53.5bn, a fall of \$23.7bn from fiscal 1988.

The increase in the trade surplus for March is partly

explained by a relative rush of imports in March 1989 in expectation of a national consumption tax, introduced in April last year, but the weakness of the yen in recent months has clearly slowed the adjustment of the trade surplus.

Mr Kenneth Courtis, chief economist at DB Capital Markets, said that Japanese products are 30 per cent cheaper in the US and 35 per cent cheaper in Western European markets than a year earlier, while imported products are that much more expensive in Japan.

"The improvement in the trade surplus probably bottomed out in the fourth quarter of 1989. In yen terms, exports are being expanded."

"This has to be a topic of conversation for the Group of Seven countries," Mr Courtis said.

During March, Japan's net invisible trade was \$1.08bn, the first surplus since April 1986, according to Ms Chiharu Sumita, of UBS Phillips & Drew. Interest payment inflow was \$4.6bn, up from \$2.7bn in February and from \$2.6bn a year earlier.

Taipei stock market gamblers come to grief

The bursting of Taiwan's bubble will please foreign investors, writes Peter Wickenden

A HEADLINE in a Taiwanese newspaper last week got it the wrong way round when it said: "Taiwan's money supply follows Taichung down." For the central bank's tight credit policy, and an ever-increasing flow of funds offshore resulted in the biggest monthly fall in money supply growth in March, and this is seen as the main cause of an unprecedented plunge in the island's immitable liquidity-driven bourse.

From its record high of 12,882 in mid-February, the weighted index has now declined to 8,574. On Tuesday it plunged 557 points or 6 per cent, the second largest one-day fall in its 28-year history, on rumours of further political instability.

The same reason was cited by analysts for a further 160-point drop yesterday, when news spread that former military strongman General Hsu Pei-tsun might be appointed Taiwan's premier.

According to central bank figures, Taiwan's M1B money supply growth fell to an annual rate of 11 per cent in March, a sharp drop from February's 8.7 per cent. (M1B comprises cash in circulation, passbook savings and current accounts.)

After the traditional mushrooming of the money supply over Chinese New Year in early February, when the stock market staged a spectacular bull-run, the central bank resorted to tough credit-tightening measures in an effort to keep the lid on inflation. This seems to have been successful, as the consumer price index grew by only 2.8 per cent in February, down from January's 3.9 per cent and the smallest rise in a year. The squeeze on credit has had two side-

effects: thousands of small- and medium-sized companies that needed loans for legitimate purposes have been complaining bitterly, and thousands more that used loans purely for short-term stock speculation have pulled their funds out of the market. The money has been put back in the banks or converted into foreign currency in expectation of a brief depreciation of the Taiwan dollar.

The volume of cash flowing offshore so far this year has been huge, and is expected to go on increasing as political infighting in the government continues and companies speed up plans for offshore investments. The government approved nearly 50 investment projects worth \$228m in the first quarter, a six-fold increase over the same period last year. But to avoid taxation, most companies do not seek government approval, and the real volume is widely thought to be seven to 10 times higher than the official figures suggest.

Analysis says that another major cause of the loss of liquidity and the draining of funds from the stock market has been the sale of the central government's shares in the three main commercial banks. The issue has been more than 100 times oversubscribed, although the prices of shares already on the market have now dropped below the offer price. If the issue goes ahead and flops, there may well be a surge of stacked-up cash back into the market. Meanwhile there has been brisk grey-market trading in the shares of several new private banks that do not yet even exist officially.

Grey market financial dealings are thought to account for up to a third of



Investors' glee at a seemingly ever-rising market has turned sour

Taiwan's GNP, and it is the impending collapse of the Honeymoon Group, the biggest underground investment racket of all, that has delivered the hardest psychological blow to stock market investors. Honeymoon admitted late last year that its pyramid scheme, by which several hundred thousand investors were paid interest at nearly 50 per cent a year, was in trouble. It was by far the largest single player in the stock market until

December, when it pulled out almost completely after the introduction of a new stock tax designed to dampen speculation. This tax, and the old capital gains tax that it replaced, brought unexpectedly large revenues to the government and made wanton speculation more expensive.

The feeling that now prevails among Taiwan's 3m unsophisticated small-time investors is one of sheer bewilderment. It all used to be so simple - and safe - just do today what Honeymoon did in the market yesterday.

Honeymoon and other large players ramped up share prices to their 7 per cent fluctuation limit, and the small fry followed, taking windfall profits sector by sector. The news that Honeymoon's management may be sent for trial as gangsters, along with the boss of the Fortune Group, another major unlicensed investment empire, sent further shudders through the market in mid-April.

The extent to which stock market profits have been an engine of the economy is obvious and alarming. Department stores, coffee shops, restaurants and expensive nightclubs are suddenly half empty.

However, the government, and some foreign securities analysts are glad to see the speculative frenzy of the last two years finally fizzle. Officials say that there has already been a slight easing of the chronic labour shortage in manufacturing industry as full-time gamblers go back to work. And foreigners are even daring to hope that a prolonged slump in the market and a period of relative stability might bring forward the day when direct foreign investment is allowed.

Thai cabinet shies away from imposing VAT

By Roger Matthews in Bangkok

THE government of Thailand has backed away from contentious plans to introduce a value added tax. At yesterday's cabinet meeting, called to discuss the results of a three-year study and proposals by the Finance Ministry, the only decision ministers could reach was to postpone consideration of the issue.

The failure to agree on VAT is a blow to Mr Pramual Sabhavasit, the Minister of Finance, who had staked a great deal of his remaining political capital on a favourable cabinet decision. It will also serve to reinforce the impression that political rivalries within the ruling coalition are seriously handicapping the government's capacity to take urgently needed projects and reforms.

Already this year the government has virtually given up on its privatisation programme: has refused to grant banking licences to at least five foreign banks after they had agreed terms with the Finance Ministry; and has tolerated continued vacillations over the urgently needed \$1.6bn mass transport railway system for Bangkok.

The main virtues of the proposed single 10 per cent VAT rate was that it would simplify collection procedures, encourage demands for receipts and therefore accuracy in accounting, while making tax evasion more difficult. This was also seen as one of the political weaknesses of the imposition of VAT could hit at the interests of powerful business groups.

The Finance Ministry and



Pramual: a tax blow

the Revenue Department had prepared the ground carefully, visited more than a dozen countries to study the application of VAT and sought to ensure that its wider benefits were fully understood in official circles in Bangkok. Nearly 1m leaflets have been printed, while the current account of staff trained and computer budgets approved for the proposed launch of the VAT system early next year.

Opponents of the new tax had, however, been playing on the fears of politicians and allied business groups that VAT would limit tax avoidance possibilities and add to the heavy weight of bureaucracy in Thailand. And with opposition parties threatening to introduce a motion of no confidence in the government in the next parliamentary session, most ministers appear to have decided to limit the risk of additional controversy.

Australian inflation hits 8.6% a year

By Kevin Brown in Sydney

AUSTRALIA'S consumer price index rose by 1.7 per cent in the three months to March, raising the annualised inflation rate to 8.6 per cent, the Bureau of Statistics said yesterday. The first quarter figure was down from the 1.9 per cent increase registered in the three months to December, and in line with market expectations.

The announcement had little effect on the share market, which rose 1.5 per cent to close 22.3 points up at 1492.9. The Australian dollar was also stronger, closing at 75.2750 US cents, up from 74.6250 cents.

However, dealers warned that the markets were waiting for the release today of March current account figures, which is expected to be between \$1.3bn and \$1.7bn in deficit, following a deficit of \$1.19bn in February.

Mr Paul Keating, the Treasurer (Finance Minister), said the government was determined to achieve a significant reduction in inflation in the next two years.

There would be no changes in monetary policy because the government had taken account of the outlook for inflation when it eased monetary policy after being returned to power in a March general election.

Mr Peter Reith, the opposition treasury spokesman, said the government's economic policies were leading to a return of stagflation - recession coupled with high inflation. Most economists said the annualised figure was likely to fall over the next few months, although Australian inflation would remain above the average of its trading partners.

\$5bn top-up sought for Asian fund

By David Housego in New Delhi

Donor nations are expected to contribute \$5-6bn to a new replenishment of the Asian Development Fund (ADF), the soft loan window of the Asian Development Bank.

This emerged in preliminary discussions that preceded yesterday's opening of the annual meeting of the bank, a sister institution of the World Bank. Industrialised country delegations decided to put off any decision on the size of a replenishment for ADF-6 which is due to begin next year until the next annual meeting of the bank in Vancouver. This would also rule on demands by India and China for access to the soft window.

The US in particular was against making fresh pledges to the ADF when it is still seeking Congressional approval for ADF-5 allocations and when the Fund has sufficient liquidity for its current operations. The \$3.5bn current ADF replenishment is due to run out at the end of this year.

The figure of \$5-6bn mentioned by some delegations would reflect an increase in line with inflation and allow nominal access for China and India to the Fund. The last three replenishments of IDA, the World Bank's soft lending arm, have maintained the volume of lending in real terms.

At yesterday's opening session Mr V.P. Singh, the Indian Prime Minister, pressed India's case for access saying the need of developing countries for development funds was very large - particularly when they opened up their economies.

Six points from Julian Ogilvie Thompson's Chairman's Statement for 1989.

The diamond market

De Beers announced an increase in attributable profits to R2865 million (US\$1127 million) and a 40% increase in dividends. For the seventh year in succession, world retail sales of diamond jewellery set another record. However, as anticipated, growth slowed to a more normal rate and it was a year of consolidation in rough diamond sales. The rough diamond market was strong in the first part of 1990 and we expect another satisfactory year.

New Swiss company

The diamond industry operates on a global basis. In 1989 80% of De Beers' attributable profits were earned outside South Africa. In recognition of this, we have proposed the establishment of a Swiss based company, De Beers Centenary AG, to hold the foreign interests of the group. De Beers and De Beers Centenary AG will continue to co-operate closely to maintain the stability of the industry. These proposals have been well received by the stock market and the substantial re-rating of De Beers will stand shareholders and the industry in good stead in the years to come.

Namibian independence

De Beers and our subsidiary CDM applaud Namibia's admission to the community of nations and, as longstanding corporate citizens, reaffirm our commitment to its development



The diamond industry employs more than 1 million people in 40 countries around the world, all linked by a common goal and all working toward a defined target. We owe our success to their commitment.

and success. This commitment is best illustrated by our investment in the Navachab gold mine, and the new diamond mines at Aucas and Elizabeth Bay. CDM marked Namibia's independence with a special donation of US\$2 million towards a national educational institute.

The full Chairman's Statement is contained in the Annual Report of the Company for the year ended 31st December 1989, which has been posted to Shareholders.

De Beers

WORLD TRADE NEWS

US-EC farm talks turn positive

Bridget Bloom detects a subtle change in tone if not substance

LATE last week, European Community farm ministers finally agreed the package fixing the EC's farm prices for 1990-91. The lack of agreement had been seen as distracting the Community from getting down to the highly demanding business of making a success of the Uruguay Round of international trade negotiations within Gatt, where agriculture is one of the thorniest problems yet to be solved.

So will the Community now prove any reader to reform its costly and trade-distorting common agricultural policy than it has been in the three and a half years since the round began?

Certainly, some movement is badly needed. It is widely accepted that the round will make little progress unless some compromise can be found between the opposing positions of the US and the EC, since the former insists that all subsidies must go and the latter that some subsidies are an integral part of its farm policies.

The two sides have recently lambasted the other for taking or threatening action likely to doom the Uruguay Round to failure. Only last February, for example, Mr Ray MacSharry, the EC Agriculture Commissioner, accused Mr Clayton Yeutter, the US Agriculture Secretary, of playing "war

games" after he published a "protectionist" draft US Farm Bill.

There are some signs that this adversarial relationship may be changing in tone and, just possibly, in substance. At meetings held between US and EC officials in Washington last week, it was agreed to set up fortnightly meetings to thrash out a framework for farm reform negotiations by July, as preparation for the final months of the round, which ends in December.

Mr Frans Andriessen, the EC's Foreign Affairs Commissioner, said the two sides had agreed "certain procedures" which should help in "narrowing the divergences... between the US and the EC."

For his part, Mr Yeutter spoke of their agreement to send some positive signals to the world of our determination to have a successful Uruguay Round... and a successful agricultural negotiation.

According to one EC Commission official, the US meeting had worked wonders. "The tone was completely different - much less confrontational," he said. "We found the Americans much more open than before."

So far, so good, but what might this add up to in practical terms? Both sides acknowledge that there are still profound differences over how far

farm reform can or should go, even if there is now talk of compromise.

In Brussels last week, EC Commission officials outlined areas in which agreement might be reached, mirroring the approach of Mr Yeutter in a satellite interview with European journalists on April 9.

Mr Yeutter, in a noticeably upbeat exposé, highlighted the possibility of agreement on tariffication, the system the US espouses for converting import protection and non-tariff trade barriers into tariffs as a means of reducing them.

He also foresaw the possibility of ultimate agreement on a system favoured by the EC as a means of reducing domestic farm supports, known as Aggregate Measures of Support (AMS).

EC officials also see these as areas of compromise. On domestic supports, they assert that the US has already foregone its opening gambit of the "zero option" of complete elimination of all trade-distorting subsidies within 10 years. They thus believe that there can be meaningful negotiation on the reduction of domestic subsidies, probably via the AMS, and on the basis of the US-delineated "red", "orange" and "green light" subsidies (the latter being those which are held

to be non-trade distorting and therefore allowable).

The question of how quickly subsidies should be reduced, and whether, for example, US deficiency payments would be included, would be among the tough problems to be settled. But they need not impede agreement, officials say.

Likewise on tariffication, which is aimed at reducing import protection. While the EC finds the US proposals too rigid and too all-embracing, with their fixed reductions and provision for safeguard clauses only to be applied on a case-by-case basis, officials say there is room for negotiation. "The difference is one of degree, it is not fundamental," was how one put it.

As for measures involving plant and animal health, which are often used as back-door trade protection, EC officials, like their US counterparts, see few problems.

The really tough issue, Brussels officials suggest, will be export subsidies, especially in the cereals sector. "The real object of the US is to reduce our capacity to export," said one official, acknowledging that the Community could not be competitive in cereals in a free-trade world.

Brussels is particularly worried about the inroads being made in the EC animal feeds market by cereal substitutes

GATT



like manioc (cassava) or corn gluten feed, a by-product of the starch industry. The EC's proposals for "rebalancing" concessions made in one area with increased support in others - which the US opposes as being an attempt to emasculate the whole process of farm reform - is particularly relevant here.

The Community would like to increase protection on cereal substitutes, for example, in return for concessions on lowering export subsidies on grains.

"This will be a matter for the last week or the last night - even the last minute," one Commission official said.

No one in Brussels minimises the problems facing the round, but they are no longer talking of failure to reach an agreement on farm reform either. That is certainly a change of tone, but only the next few months will show whether it is one of substance as well.

Dunkel welcomes US stance on Japan

By Peter Ungphakorn in Bangkok

MR ARTHUR DUNKEL, director-general of the General Agreement on Tariffs and Trade, has hailed the US decision not to impose immediate sanctions against Japan as a turning point for the Uruguay Round of trade negotiations.

He was speaking in Bangkok after talks on Tuesday with officials of the Association of South East Asian Nations in which he is said to have warned that failure to reach agreement in the round could be catastrophic.

Mr Dunkel told them that without a meaningful agreement trade wars would break out involving unilateral retaliatory action such as that prescribed by "Super 301" of the US Trade Act.

Mr Dunkel interpreted recent statements by Mrs Carla Hills, the US Trade Representative, as indication that Washington was genuinely giving priority to the round.

Meanwhile, differences have emerged within ASEAN about how its members should approach the question of special and differential treatment for developing countries.

Japanese file claims over late Soviet payments

By Robert Thomson in Tokyo

JAPANESE trading companies have begun lodging claims under the Government's export insurance scheme for late payment of debts by numerous corporations in the Soviet Union.

The Soviet companies have been unable to meet hard currency deadlines in recent months.

Under the scheme, Japanese companies are supposed to report late payment after two months if they want compensation but, until recently, they have given Soviet corporations extra time to repay debts in the interests of longer-term relationships.

The Japan Association for Trade with the Soviet Union and the Socialist Countries of Europe has estimated that overdue debts to Japanese companies are at least ¥1.8bn (\$6.92m), while companies report that late payment became common about six months ago and has been more serious since February.

Several of Japan's largest trading houses said they had begun notifying the Ministry of International Trade and Industry (Mit), which oversees the

scheme. A Mit official denied a Japanese press report that the ministry had encouraged companies to lodge claims to put pressure on the Soviet Union and would not say if the insurance tariff was under review.

Mitsui & Co the trading house, said some payments were still made on schedule and that punctuality "depends on the items involved". He said: "The difference now is that we might claim insurance in some cases."

Companies are agreed that if Mit downgrades the rating of the Soviet Union, the cost of doing business will rise and the incentive fall slightly. Mitsui, the largest trading house, said Mit had requested that the company provide a list of late payments since "the middle of last year".

"We have not yet had a case of a payment being refused. The longest delay we have had is six months," Mitsui said.

C. Itoh & Co said the company was "having some problems" with late payments but this would not necessarily affect long-term business planning.

China awards grain silo contract in Y3.6bn deal

THREE Japanese companies have won a ¥3.6bn (\$2.8m) contract to build a grain silo and loading bays in China, agencies report from Tokyo.

The companies will begin work on the project as soon as they get final approval from the Chinese and Japanese governments, Kanematsu & Co, a general trading company, said yesterday.

The contract will be the first big project carried out by Japanese companies in China since the military suppression of pro-democracy demonstrators in Peking last June.

It is to be financed by a Japanese government loan.

Kanematsu, Hitachi Metals and Hitachi Building & Construction expect to complete the work by the second half of 1993.

Kanematsu said the Chinese Government called for bids in April 1989 but progress was delayed by the military crackdown. A final agreement was reached only recently.

Hitachi Metals will handle the construction of the 70,000 tonne-capacity silo - one of China's largest - at Liangyang in Jiangsu province, and conveyor facilities. Hitachi Plant will construct the loading facilities.

UK train maker in link with Czechoslovakia

BREL, the British railway train maker, has signed a co-operation agreement with CKD Tatra of Czechoslovakia, the world's largest manufacturer of trams and light rail vehicles, writes Richard Tomkins, Transport Correspondent.

It sees the deal as an opportunity to expand its markets following recent east European reforms.

BREL, owned 50 per cent by its employees, 40 per cent by Trafalgar House and 10 per cent by Brown Boveri, is one of Europe's biggest makers of rail vehicles, specialising in multiple unit trams and metro cars.

Most of its output goes to British Rail and London Underground. It recently won an order worth over £200m to supply 680 cars for use on London's Central Line.

The Prague-based CKD Tatra is part of Czechoslovakia's state-owned engineering industry and supplies virtually all light rail vehicles and trams required by Comcon, the Soviet-dominated eastern trading bloc. BREL hopes the deal with CKD will open the door to co-operation on manufacturing and marketing, increasing its share of the overall rail vehicle market in the UK as well as overseas.

Mexico blocks Latin American integration plan

TALKS to devise an economic integration scheme for Latin America hit a snag this week when Mexico failed to back a plan to expand the region's preferential tariff programme, participants said, Reuters reports from Mexico City.

Delegates to the Latin American Association for Integration (Aladi) adjourned their two-day meeting without a concrete proposal for regional co-operation.

On Monday, Mr Domingo Cavallo, the Argentine Foreign Minister, said that his country, as well as Brazil, Colombia, Chile and Uruguay, would propose a 50 per cent reduction in tariff levels and a 10 per cent increase in the list of goods covered.

Delegates complained that Mexico was pursuing its own agenda.

"Due to its geopolitical position, Mexico thinks it best to dedicate major efforts to increase its commercial interchange with the developed world, in particular with the US," said another delegate. "For Mexico, integration with the poor countries generates poverty," he said.

Aladi officials hope Mexico will participate but Mr Jorge Ordonez, the organisation's secretary-general, said the group could not wait forever.

Taiwan opens up tenders to E Europe

TAIWAN will open its government tender market to five east European countries, the Economics Ministry said, Reuters reports from Taipei.

Mr Chiang Ping-kun, vice Economics Minister said Czechoslovakia, Yugoslavia, Hungary, Romania and Poland would now be eligible to tender for Taiwan's government and public enterprise purchases, worth \$3-\$4bn annually.

The countries are all members of the General Agreement on Tariffs and Trade. Taiwan is applying for Gatt membership and a ministry official said Taipei was trying to win allies among the 86 member states.

Procurement tenders would remain closed to the Soviet Union, Albania, East Germany and Bulgaria, the official said.

"The new move reflects a step forward in our policy to liberalise our market and it will help boost our trade with these countries," he said. The Economics Ministry will submit its proposal in the next two weeks to the cabinet for final approval.

Taiwan currently limits procurement tenders to north America, western European

countries, along with South Korea, Singapore, Australia and New Zealand. It bans Japan because of Taipei's huge trade deficit with Tokyo. The deficit jumped to a record high of almost \$7bn in 1989 from \$6.9bn in 1988.

Ministry officials said annual procurements included contracts for passenger and cargo aircrafts, precision tools, computers, telecommunications equipment, anti-pollution devices, buses, power equipment and machinery. They predicted that Taiwan's procurements, particularly for anti-pollution equipment, would rise substantially in the next few years.

Taiwan is a lucrative market for foreign suppliers and we believe East European countries can offer competitive prices due to their cheap labour and costs," one official said.

Total customs-cleared trade between Taiwan and the Soviet Union and eight east European countries was \$361m last year, according to the Board of Foreign Trade. Trade officials forecast that the value will rise to about \$600m this year.

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Apart from our many other activities Taylor Woodrow is now a big name in retail.

Asda, Morrisons, Sainsbury's and Tesco are amongst the major supermarket names that have put us on their shopping list.

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Our own property portfolio includes a number of shopping centres. The newest is Portsmouth's Cascades Centre, housing such major retailers as British Home Stores and Marks and Spencer.

And other major projects are up and running as far afield as Australia, the Far East and North America.

Being willing to diversify, along with teamwork and enterprise means Taylor Woodrow has grown into an international force in four related business areas.

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AST: Ten Years Of Achievement

Founded in 1980, AST Research was one of the first companies to offer expansion boards to increase the power and functionality of the IBM PC. One of their first products, SixPakPlus, was to become the largest selling enhancement board in history, and is still one of the most popular products of its kind today. But that was only the opening chapter in AST's rise to becoming one of the world's most respected makers of microcomputers and related products.

The early days of enhancing IBM's open architecture PCs provided a strong foundation for AST to apply its expertise. And in late 1986, they introduced the ultimate enhancement — their first computer, the AST Premium/286. Building on an excellent reputation for hardware and software compatibility, quality and reliability, the Premium/286 was a runaway success with both industry experts and customers.

Able to build on a strong multiple channel distribution strategy put in place for the earlier board-level products, AST computers were soon being marketed through a variety of channels throughout the world including major chains, independent dealers, value added resellers (VARs), large distributors, OEMs and U.S. government (GSA) approved dealers. Now, AST computers are found on desktops in businesses everywhere — from the very small to over 60% of the nation's largest — and in government agencies.

Today, AST offer a full family of computers — one for every performance and price range, for a variety of business and personal applications — from the entry-level Bravo/286 and Bravo/386SX to the high-performance Premium 386 and i486 based systems. They also continue the tradition of enhancing systems by offering award-winning memory, multifunction and graphics products, and provide for customers' connectivity needs with LAN, 5250 and 3270 products.

A cornerstone of AST's technological leadership is the growing popularity of the patent-pending Cupid-32 (Completely Universal Processor, I/O Design) architecture. This technology separates components according to whether or not they are likely to change as microprocessors advance. All hardware that is dependent on the type and speed of the processor, including the microprocessor, cache memory and numeric coprocessor are located on a plug-in, printed circuit board.

As a result, customers can avoid desktop obsolescence by upgrading AST's Cupid-32 Premium computers to the next level of performance by simply replacing a board. Upgrades can be completed in a matter of minutes, and can be accomplished throughout the Premium product line, from 386SX to i486-based products and beyond.

The underlying flexibility of Cupid-32 technology also allows AST to respond to changing market conditions with a very rapid product development cycle. In fact, AST was the first company to announce shipments of ISA i486 computers based upon Intel's production release version microprocessor.

AST's corporate headquarters are in Irvine, California but they are truly a worldwide company, marketing products in more than 77 countries. They also build them around the world, and design them to fit international requirements — AST manufacturing facilities are located in the United States, Hong Kong, Europe and Taiwan and AST support them wherever they are installed with offices established throughout the U.S., Europe and in Canada and wholly owned subsidiaries in the United Kingdom, France, Germany, Switzerland, Italy, Hong Kong, Taiwan, Australia and Japan.



Over 2,000 employees are dedicated to delivering the highest quality desktop computers and related products. It's a commitment that begins long before the products reach the desktop. And it's demonstrated in every area of the company.

AST's engineering and marketing teams work closely together to design innovative products answering the needs of the marketplace. Starting at board level design, AST

uses CAD/CAM and surface mount technology to reduce component size and product cost. ASIC (Application Specific Integrated Circuits) technology is another key strategic asset allowing AST to remain a leader in product development. With ASIC, AST can envisage and create custom products that provide exceptional value and ease of upgradeability.

AST's commitment to quality is second to none, and it allows them to boast one of the lowest return rates in the industry. Thorough examination and testing are prevalent throughout the entire manufacturing process, including a complete burn-in process for every computer. Reliability labs, agency compliance testing (FCC, UL, CSA, VDE, etc.), product safety labs and compatibility labs also ensure quality. A few of their commitments to compatibility include unique enhancements to BUS technology allowing faster operation and selectable CPU speeds for strict software compatibility.

AST are dedicated to their customers. AST's Product Support Centres are staffed by fully trained technical support teams available to answer any question by telephone as well as 24-hour on-line electronic systems which provide a variety of information, including free software upgrades. Should an AST product ever need repair, service centres and optional on-site service is available throughout the world.

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► AST's first memory/multifunction board, *ComboPlus™*, earns two first-place titles in the PC "World Class" Competition.

1984

► *SixPakPlus®* ranks No. 1 on the *Software Hot List* for the first time. It would remain on the hot list for most of the next five years. It becomes the standard against which all multifunction boards are compared.

► *SixPakPlus* named the favourite memory/multifunction by PC World readers in its "World Class" competition. Readers would choose it again for the next five years. *SuperDrive* chosen top disk emulator.

1985

► *Rampage!®* selected the "Most Significant Product Of 1985" by PC Week.

► AST's LAN product ranked among top six by PC World.

1986

► *Rampage!* rated excellent in five categories and earns top score by *The Journal of Corporate Computing*.

► *Computer Reseller News* names AST top add-in board supplier.

1987

► AST Premium/286 awarded Editor's Choice by PC Magazine.

► "The Best Of 1987" award is presented to AST for the Premium/286 by PC Magazine.

1988

► Premium/286 merits PC Digest's top rating, and is the only system to earn overall rating of excellent.

► LAN Magazine recognises the AST Premium Workstation/286 for its sleek design.

► Premium/386 named top-ranked 386 system by InfoWorld.

► AST picks up Reader's Choice awards in six categories of PC World's "World Class" competition — AST Premium/286, *SixPakPlus*, *Rampage-AT*, *Advantage®* Premium and *SixPak-Premium* with the Premium/386 voted one of the most promising newcomers.

► AST rated number one in technical support in PC Week survey.

1989

► *RampagePlus 286* voted best EMS 4.0 board and wins "Product Of The Year" award from InfoWorld.

► *Byte* magazine gives AST an award of excellence for its work with EISA.

► AST Premium 386/25 earns the highest score for 32-bit memory upgrade in PC Week "Scoreboard."

► InfoWorld magazine gives the AST Premium 386/33 its "Best in its Class" distinction.

► *Government Computer News* readers select the AST Premium/286 as their top choice.

► PC World selects the AST Premium 386/33 as its "Best Buy".

1990

► AST Premium 386SX/16 earns the PC Magazine Editor's Choice award.

► The German publication, *Computer Persönlich*, reviews the AST Premium 386SX/16, ranking it number one.

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AMERICAN NEWS

Conservatives snipe at Bush over Lithuania

By Peter Riddell, US Editor, in Washington

PRESIDENT George Bush faces growing public criticism over the Lithuanian independence crisis, mainly from conservative Republicans, but also from some Democrats.

His handling of this issue has brought to the surface wider unease among conservatives about the President's support for President Mikhail Gorbachev, his desire to keep open high-level contacts with the Chinese authorities, his unwillingness to take a public stand on such social issues as abortion, and about what they see as his appeasement of the environmentalists over clean air legislation.

Until now, most conservatives have been willing to give Mr Bush the benefit of the doubt because of his willingness to consult them frequently, his high opinion poll ratings, the prominent role of Mr John Sununu, the conservative White House Chief of Staff, and the President's resistance to raising taxes.

While congressional leaders of both parties have supported Mr Bush's refusal to introduce sanctions against Moscow over Lithuania, conservatives, including such widely-read columnists as Mr William Safire, have been uneasy. In particular, many are concerned that the sanctions decision was followed within two days by a provisional trade deal with Moscow which promised the Soviet Union access to the US market. Nine Republican senators unusually went public in calling for the trade deal to be shelved from the agenda of the Bush/Gorbachev summit at the end of the month.

Senator Gordon Humphrey said his patience ran out over Lithuania and that the trade deal was "callous and unfeeling in the extreme". However, Mr Humphrey will retire early next year. More significant was the suggestion by Senator Robert Dole, Republican minority leader, that he might "slow walk" the deal through Congress, arguing this was not the time to do the Kremlin any

favours, or for business as usual.

Late on Tuesday, the Senate approved by 73 votes to 24 a non-binding resolution urging Mr Bush to postpone the grant of most favoured nation trade status to the Soviet Union until Moscow has lifted its economic blockade of Lithuania and started negotiations with Vilnius. This suggests that the required legislation may face a long, tough passage in the Senate.

Mr Bush has responded to some of these concerns by agreeing to the first formal, public contact with a member of the Vilnius government when he sees Mrs Kazimiera Prunskiene, Lithuanian Prime Minister, at the White House today. However, the White House has stressed that Mr Bush wants an authoritative first-hand report on the situation and is seeing Mrs Prunskiene as a freely elected representative of the Lithuanian people, rather than as prime minister of an independent Lithuania.

Apart from the trade agreement, there is little the conservatives can do except complain. Mr Bush is the only president they have and, on present form, is certain to be reelected with little trouble in 1992.

But the change in public view among conservatives, if sustained, could create embarrassment and hurdles, if not insurmountable barriers, in Congress.

The outspoken Mr Howard Phillips of Conservative Caucus has argued that Lithuania is the defining moment of the Bush administration: "More and more conservatives are talking about it as the Nelson Rockefeller administration that never was" - a reference to the late vice-president in the Ford administration of the mid-1970s, who was a hated symbol of traditional Republicanism for many conservatives during the 1960s and 1970s. Some members of the Bush team, though, might regard the jibe as a compliment.

S&L rescue hits more cost trouble

By Peter Riddell in Washington

THE rescue of the financially troubled US savings and loan industry has run into further controversy, as the White House has admitted concern over a further rise in the cost and has confirmed that it is looking for a new head of the operation.

Mr William Seidman is chairman of the Federal Deposit Insurance Corporation, which is responsible both for insuring commercial banks and for the Resolution Trust Corporation which handles the savings and loan rescue.

Aged 69, he has said he wants to leave before the expiry of his term next year. The White House has not tried to dissuade him and is discussing a successor.

However, Congressional Democrats have urged President George Bush to retain Mr Seidman.

Mr Seidman has criticised interference by the Treasury in the details of the rescue. His likely departure comes at a time when there is growing concern that the cost to US taxpayers of the rescue will be substantially more than previously estimated, largely because of the level of interest rates and property prices.

Congress moves closer to talks on budget

THE US Congress has moved nearer negotiations with the White House over a deficit-reducing budget package for fiscal 1991 starting this October, writes Peter Riddell in Washington.

This is certain to be very different from the proposals outlined by President George Bush in late January.

The Senate Budget Committee yesterday adopted by 14 votes to seven a plan which would cut the deficit by \$43bn down to below the \$64bn Gramm-Rudman deficit reduction target for fiscal 1991. Late on Tuesday, the House of Representatives approved by 218 votes to 208 a Democratic plan to cut the deficit by \$35.5bn.

Both versions have lower defence and

higher domestic spending than the Administration proposed. They are intended as opening positions in the talks between Congress and the White House.

However, the Administration itself now estimates that a deficit reduction package of at least \$45bn, and possibly much more, is needed to meet the target because of slower economic growth during the winter and higher than forecast interest rates.

The House version sets defence spending authorisations, including commitments for future years, at \$263bn, or nearly \$24bn less than sought by the White House, with projected spending outlays of just over \$236bn, more than

\$8bn lower than the Administration proposed. The Senate committee version proposes defence spending of nearly \$10bn less than the Bush budget.

At the last minute House Republicans did not even offer the Bush budget for a vote because it had been overtaken by changes in both the economy and world politics. A leading Republican said: "We would get to our negotiations more quickly if we did not offer the Bush budget." But they disagree with the Democratic plan because it cuts defence excessively.

In the Senate, Republicans argued that the committee package was unrealistic, particularly in its approach to defence and was not going to

be implemented.

On paper, the House version seeks to cut \$35.5bn, though Mr Leon Panetta, chairman of the House Budget Committee, has estimated "hard savings" at no more than \$28bn to \$27bn, with \$6bn unexplained and \$13.5bn in additional revenue still in dispute.

The Senate version combines cuts in defence, an additional \$13.5bn in taxes, \$6.2bn in user fees, cuts in entitlement social programmes of \$5.6bn and cuts in other domestic programmes and foreign aid of \$3.5bn. An associated plan for an amnesty on back taxes and intensified enforcement efforts is projected to raise a further \$11bn to increase total savings to \$54bn.

Costa Rica and banks line up Brady-style debt deal

By Stephen Fidler, Euromarkets Correspondent

COSTA RICA and foreign bank creditors are set to begin signing on Saturday an agreement which will reduce the country's bank debt service bill by almost three-quarters.

The agreement will become the third comprehensive package to have been completed under the debt reduction initiative launched last year by Mr Nicholas Brady, US Treasury Secretary, when the pact became effective on May 21.

The initiative envisaged the use of official resources, mainly from the International Monetary Fund and World Bank, to finance a reduction in the bank debt of middle-income

countries agreeing to economic reform.

Signature of the agreement by the government and by seven banks (led by Bank of America) which sit on the country's bank advisory committee, will start in the Costa Rican capital San José.

The remaining 200 banks will begin to sign in New York next week.

The agreement is expected to reduce the country's annual debt service bill from about \$150m annually to about \$40m, according to bankers. Costa Rica has only been partially servicing its debt to banks since 1986, building up arrears

of more than \$325m.

The agreement contains no request for banks to make new loans to the country - a factor which was expected to make agreement easier.

Banks representing only 2 per cent of the \$1.5bn in bank debt have not entered the agreement. High participation among banks has marked the three Brady agreements so far completed.

Banks representing some 65 per cent of the total debt opted to sell their debt back to the country at 16 per cent of face value.

Banks holding about 17 per cent of the total debt agreed to

convert more than 60 per cent of their exposure into low-interest bonds with a 6% per cent annual coupon, a 20-year maturity and an 18-month rolling guarantee on interest payments.

These banks also swap their overdue interest into 15-year floating rate bonds with a three-year rolling guarantee of interest.

Banks representing a remaining 18 per cent of the total debt opted to convert less than 60 per cent of their exposure and their back interest into bonds which carry longer maturities and no interest guarantees.

The fear of establishing a precedent of a debt reduction agreement with a country in arrears to banks delayed completion of the deal.

A 30 per cent down payment on the overdue interest was included in the agreement, in what bankers said was an attempt to discourage arrears elsewhere.

Mexico and the Philippines have already completed Brady-type agreements; Venezuela and Morocco have outlined agreements with bank creditors. Chile has used official resources under the Brady plan for a modest debt buy-back.

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Congressional testimony by Milken likely

By Roderick Oram in New York

MR MICHAEL Milken is likely to begin testifying to Congress as early as July about the junk bond market he pioneered and the business dealings which led him last week to plead guilty to six felonies and to pay \$600m in penalties.

His appearance would be required by a subpoena which a House of Representatives sub-committee voted unanimously to issue. The panel, chaired by Mr John Dingell, a Michigan Democrat and frequent critic of Wall Street, also agreed to offer Mr Milken immunity from further prosecution in return for his testimony.

Mr Milken would testify if he was guaranteed none of his evidence could be used against

him in state or federal court, one of his spokesmen indicated last week.

The House Energy and Commerce Committee, also chaired by Mr Dingell, has to approve the sub-committee's resolution, but no hitch is expected.

The investigations sub-committee is likely to ask Mr Milken about his relationship with savings and loan associations - some of his biggest customers. The financial health of many of these has been severely impaired by junk bonds.

It will also ask Mr Milken about the 400 or so investment partnerships that included him and fellow employees of Drexel Burnham Lambert, the now defunct Wall Street firm.

Indicators show recovery

By Anthony Harris in Washington

THE official index of leading indicators and the rate of ordering from US factories recovered strongly in March, matching their end-1989 levels after a sharp fall at the beginning of the year.

The index of leading economic indicators rose 0.9 per cent, and factory orders in March rose 3.8 per cent. Both figures were well above market expectations (of 0.7 and 3.1 per cent respectively), but both were heavily influenced by the 63 per cent jump in aircraft orders in the month. This is regarded as an aberration, and there was no market response.

Smaller contributions to the rise in the leading indicators came from initial state jobless claims, new orders for con-

sumer goods, vendor performance, plant and equipment orders, sensitive materials prices and stock prices. However, growing signs of a construction downturn were negative influences.

The rise in factory orders was 1 per cent if aircraft and cars are excluded to give a better measure of the trend. Since the end of 1989 the total is virtually unchanged, but durable goods orders are down about 2.5 per cent, and non-durables up by the same amount.

Inventories fell 0.3 per cent for the second successive month, which suggests that the correction, mainly in the motor industry, may now be complete. Order books rose 0.7 per cent.

Brazil seeking price freeze this month

By John Barham in São Paulo

MS ZELIA Cardoso de Mello, Brazil's Economy Minister, said yesterday that key retail prices will remain frozen this month.

However, despite significant rises in independent and official price indices in April, the government has already stated that wages paid in May will not receive cost of living adjustments. This is because, it says, inflation has fallen to zero, following the adoption of its tough economic policies on March 16.

Under the new radical anti-inflation policies, prices and incomes are subject to government-decreed ceilings.

Manley asks for Caribbean aid to stay

By Canute James in Kingston

MR MICHAEL Manley, Jamaica's Prime Minister, will tell President George Bush today that he and other Caribbean leaders are concerned at the possibility that aid promised to the region will be diverted to support eastern European countries as the new governments in Nicaragua and Panama.

Several other Caribbean prime ministers have recently complained that levels of official aid were being reduced at a time when many countries, struggling to meet their debt obligations, had implemented programmes to restructure their economies.

UK NEWS

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UK NEWS

Nine remain in custody over Iraqi gun affair

By Jimmy Burns

NINE EXECUTIVES of British companies at the centre of the Iraqi gun controversy were under arrest yesterday after being held overnight by Customs officials at police stations in Sheffield and Birmingham.

A senior Customs and Excise officer is understood to have authorised a 12-hour extension for the arrest of the nine, who were not named, so last night they were approaching the maximum period for which they could be held without being charged, released or brought before a magistrate. However, a magistrate could grant a further 36-hour extension.

The two companies involved - Sheffield Forgemasters and Walter Somers - said they had not been informed by Customs officers that any of their executives had been arrested.

Sheffield Forgemasters said six executives of group companies had been asked to make statements on Tuesday and were continuing to do so yesterday accompanied by their solicitors.

Eagle Trust, the parent company of Walter Somers, said of its executives: "We have not been told that they have been arrested: all we've been told is that they are assisting with enquiries."

Customs officials said 16 people were held for questioning yesterday but some had later been released.

Customs and Excise have indicated that some of those arrested were likely to be charged today under the Export of Goods Control Order and the Customs and Excise Management Act, which governs the attempted export of prohibited goods. Engineers at Walter Somers now believe that equipment exported to Iraq may have been part of a hydraulic recoil mechanism for the "supergun" project.

The company earlier alerted the Department of Trade and Industry advising them of its deep suspicions. Sheffield Forgemasters maintains that the Iraqi order was for a petrochemical project, and that it had received DTI approval.

The main options facing the committee are postponing the inquiry or holding it in secret. Going ahead with the inquiry would be embarrassing for the Government, and the decision could well split MPs.

Race group calls for law on choice of education

By Alan Pike, Social Affairs Correspondent

THE COMMISSION for Racial Equality has written to Mr John MacGregor, Education Secretary, asking him to change the law to prevent parents selecting schools on racial grounds.

If Mr MacGregor refuses, a court confrontation between the commission - a statutory body - and the Government appears unavoidable.

Mr MacGregor has upheld a decision by Cleveland County Council to allow Mrs Jenny Carney, a white mother, to transfer her daughter to a Middlesbrough school with fewer Asian pupils.

The council argued that its duty under the 1980 Education Act to accept parental preference was not to be interfered with by the efficient use of resources, superseding the 1976 Race Relations Act. This says that the allocation of school places must not be discriminatory.

Commission officials have written to Mr MacGregor asking whether, since he is interpreting the law in the same way as the council, he is prepared to change it.

Unless he agrees, the commission is likely to seek a judicial review to establish the relative standing of the two pieces of legislation.

"It is for us an absolutely central issue and we would want to test it," said Mr Michael Day, the commission's chairman, yesterday.

The commission has also told ministers that the particular needs of ethnic minorities have been virtually ignored in the Government's white paper on the reform of the criminal justice system.

It is calling for a package of measures including the right to racially-mixed juries for all defendants.

A two-year research project by the Centre for Criminological Research at Oxford University, funded by the commission, is looking at how the criminal justice process affects different ethnic groups.

Ethnic minorities are heavily over-represented in the prison population.

Flying the flag for small European airlines

Paul Betts and Paul Abrahams talk to British Midland chairman, Michael Bishop

THE collapse this week of German Wings, the German airline which was seeking to compete against Lufthansa, was an eloquent example of the difficulties facing Europe's small independent operators against the might of the big national flag carriers.

"I won't let it happen to us," says Mr Michael Bishop, the chairman of British Midland Airways, outlining a broad range of initiatives his airline had taken to try to win a bigger share of the British air transport market both domestically and in Europe, as well as defending the interests of independent airlines in a more deregulated European airline environment.

In recent days, Mr Bishop has intensified his lobbying of UK government officials in Whitehall and MPs in Parliament, and sought support from the country's press. He has also taken his campaign to Brussels to win the European Commission to his cause.

Barely eight years after the demise of Sir Freddie Laker's airline, Mr Bishop suggested yesterday that there was now a growing risk of history repeating itself with the dominant European flag carriers trying to put smaller airlines out of business.

Both in London and Brussels, Mr Bishop suggested that the EC's plans to invest in a 20 per cent stake each in the new Belgian Sabena World Airlines and to

establish a new European hub based in Brussels.

BMA claims the deal, now under investigation by the EC and the UK Mergers and Monopolies Commission (MMC), would seriously distort competition.

Mr Bishop held talks with Sir Leon Brittan, the EC competition commissioner, this week. Both the EC and the

due to approve the second stage of European airline liberalisation next month.

Mr Bishop argued yesterday that alliances between dominant carriers were clearly uncompetitive but that investments by large airlines in smaller airlines could help strengthen the financial and competitive position of these second tier carriers as long as

between Air France and Lufthansa and the Air France takeover of UTA, the independent French long distance airline, and Air Inter, the domestic French carrier.

However, he is worried that many European governments, especially France, are fundamentally opposed to the operations of smaller independent airlines favouring the concept of big national carrier.

Mr Bishop has also filed a complaint against Air Lingus for uncompetitive practices.

But BMA's main battlefield is much closer to home. Mr Bishop, whose airline provides BA with most competition on domestic routes out of Heathrow, has complained that his company is finding it increasingly difficult to compete with BA.

Mr Bishop has long campaigned for more slots at Heathrow, although BMA has the second biggest position with 14 per cent of slots compared with BA's 38 per cent.

Mr Bishop claimed the national carrier was abusing its position on the scheduling committee at Heathrow airport, which allocates take-off and landing slots.

BA provides the committee's secretariat and holds the chairmanship. The committee's mainframe computer also happens to be in the same office as BA's fleet planning office.

The airline had used information from the committee's computer system to provide slots to increase the frequency

of flights on its London to Glasgow routes, alleged Mr Bishop. This had led BA to increase the frequency on this route from 10 to 14 last November.

However, BA had also suffered a fall in its passenger load factors of about 10 per cent to around 60 per cent. This increase in capacity without sufficient demand, he argued, represented predatory competition.

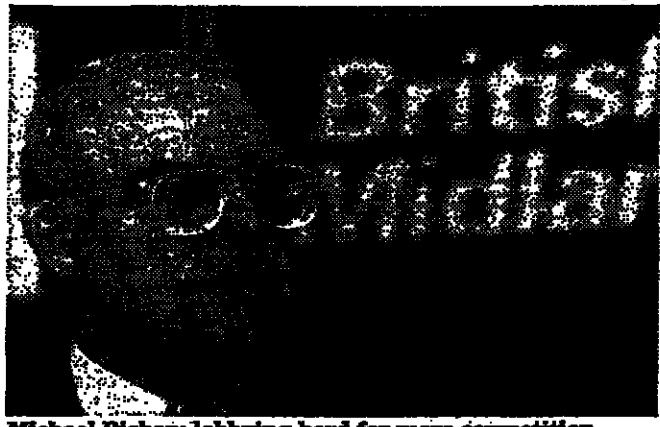
BMA had only been able to respond by increasing its own frequencies from eight to nine flights because of a shortage of slots. Despite this increase, BMA's share of the market had fallen to 25 per cent at the same time that its load factors had also declined. He admitted BMA's Glasgow operations were becoming marginal.

Mr Bishop has now asked for daily access to the slot scheduling computer at Heathrow.

BA, however, vigorously rejected Mr Bishop's trade for greater competition. The airline claimed BMA was not seeking competition but protection from competition by substitution of themselves for BA and other UK airlines.

"We totally refute BMA's allegation of predatory behaviour on the Glasgow service. We do not control the Heathrow slot scheduling committee. The BMA are not as badly off for slots at Heathrow as they claim," BA fired off in a statement yesterday.

The war of words has only just begun.



Michael Bishop: lobbying hard for more competition

MMC are expected to reach a decision by the end of June.

EC competition officials are concerned by the recent spate of partnerships and alliances between large carriers. They fear these pacts will make it difficult for small competitors to enter the market and risk pre-empting the EC's latest efforts to liberalise European air transport.

European governments are

they remained independent.

He claimed this was the case of Scandinavian Airlines Systems (SAS) 25 per cent investment in his own airline. He also suggested if BA or another large carrier had taken a stake in German Wings, the independent carrier would have had a good chance of competing against Lufthansa.

Mr Bishop is also opposing the cooperation agreement

Labour criticises fuel deficit

By Alison Smith

BRITAIN had a trade deficit in 1989 and the first quarter of 1990, Mr Frank Dobson, the opposition spokesman for energy said yesterday.

Mr Dobson said previously unpublished figures showed that on top of the 6m tonnes coal equivalent deficit in 1989, the first three months of 1990 had left a deficit of 1.3m tonnes.

Britain had much greater fuel trade deficits in the 1970s, but last year's figures of 119m tonnes exported and 135m tonnes imported represented the first such deficit since 1981.

Mr Dobson said a sharp reduction in oil production last

year looked set to continue into the next financial year because of shutdowns for maintenance and safety improvements.

Another factor was the import of low sulphur coal, in preference to expensive fine-grained desulphurisation.

Mr Dobson said most of the 49 British low-sulphur coal mines closed over the last 10 years had been because they were "uneconomic" rather than because the supplies were exhausted. Safety considerations made it unlikely that they could be reopened.

For the longer term, he doubted whether the UK had

"adequate and good enough gas resources" to cope with the moves towards gas-fired power stations. Either power stations would import gas or their increased use of British-produced gas would force British Gas to import.

"Government recklessness has curtailed our self-sufficiency in fuel in just eight short years."

He said a Labour Government "might well take the grid company back into public ownership" with greater powers, while duties to promote and invest in energy efficiency might be imposed on the distribution companies.

More companies to lease sites at Canary Wharf

By Paul Chesswright, Property Correspondent

THREE or four more companies will sign leases on space at Canary Wharf, the largest single commercial property project in the UK, Olympia & York said yesterday.

Olympia & York, the privately owned Canadian group, plans to build 10m square feet at the 24th development in London Docklands and aims to establish a new commercial community centred around the central London, to the West End and the City.

A wave of new leasing agreements would serve to dispel the belief in parts of the British

property industry that Canary Wharf could turn out to be a white elephant and would suggest some faith that existing road and underground plans will relieve the transport difficulties of Docklands.

The expectation of more private sector clients comes against the background of speculation that the Government might put forward Canary Wharf as the site for the proposed European Bank for Reconstruction and Development, designed to channel western finance into eastern Europe.

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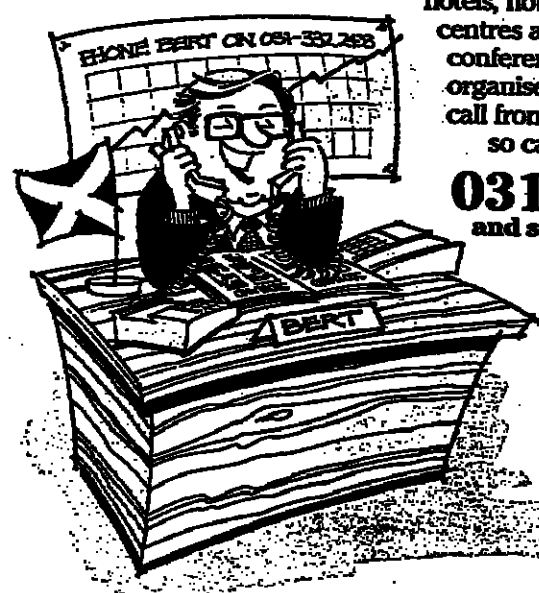
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FINANCIAL TIMES
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BUSINESS LAW

Path is cleared for non-US issuers

By Marilyn Mooney

IN A MOVE which could revolutionise US capital markets, the Securities and Exchange Commission (SEC) has adopted Rule 144A, which allows, for the first time, immediate resale of certain privately placed securities to qualified institutional buyers.

This rule paves the way for non-US issuers to offer securities in the US without the costs associated with SEC registration or with historically illiquid private placements.

The SEC also made two equally significant moves designed to enhance the attractiveness of US markets to non-US issuers.

It approved what will be the first market trading system in the US for privately placed securities. Known as PORTAL (Private Offering, Resale and Trading through Automated Linkages) and designed by the National Association of Securities Dealers, the automated system will facilitate primary placement and secondary trading for Rule 144A securities transactions in multi-currency settlements.

In addition, the SEC, in effect, reduced the holding period requirements of safe harbor under Rule 144 which have been in effect since 1972.

Under the amended rule, subsequent purchasers not affiliated with the issuer may combine or tack their holding periods of securities issued in private placements or resold under Rule 144A (including those of non-US issuers), in order to satisfy the two or three year holding period requirements of the rule.

This change will enhance liquidity by allowing restricted securities to reach the US public marketplace far earlier than previously permitted.

At the same time it adopted these changes, the SEC also adopted Regulation S, which clarifies when offshore offerings are not subject to US registration. Regulation S focuses on flowback into the US of securities issued abroad.

Whereas Rule 144A deals with resales of securities in the US, Both Rule 144 and the new Rule 144A provide safe harbor relief from the registration requirements of section 5 of the Securities Act 1933 (Securities Act) for resales in the US of privately placed securities.

Unlike Rule 144, Rule 144A requires no holding period before resales can occur to

qualified institutional buyers. Hence, the competitiveness and liquidity of the markets are enhanced, thereby lowering the cost of capital to issuers in the first instance.

The number of qualified institutional buyers is estimated to exceed 3,000. Except for registered broker-dealers, qualified institutional buyers must own and invest on a discretionary basis a minimum of \$100m in securities of unaffiliated issuers. The threshold for registered broker-dealers is \$10m. In the case of both domestic and foreign banks and savings and loan associations, an extra requirement that they have a net worth of \$25m has also been imposed.

Although Rule 144A will lower capital raising costs in the US for non-US issuers, it has not exempted these issuers from the registration requirements of section 12 of the Securities Exchange Act 1934 (Exchange Act). Securities of a non-US issuer that are traded on a US securities exchange must be registered under section 12(b).

In addition, any class of equity securities of an issuer with total assets of more than \$5m that are held of record by 500 or more persons (including PORTAL qualified investors), at least 500 of whom reside in the US, must be registered under section 12(g).

Non-US issuers who offer equity securities privately in the US as a result of Rule 144A will in time probably trigger the section 12(g) registration threshold. Because these securities will usually become freely tradable after three years pursuant to Rule 144, they will be able to be quickly resold to more than 500 persons. Many of these issuers will be exempt from Section 12(g), however, pursuant to Rule 12c-2(b).

Accordingly, non-US issuers who have not already established the Rule 12c-2(b) exemption should do so. The exemption is available for a non-US issuer as long as:

• it has not in the past 18 months had securities registered pursuant to section 12 or been subject to a reporting obligation under section 15(b);

• its securities were not issued in connection with the acquisition of another issuer that had issued securities in a US public offering or had sec-

tion 12 registered securities; • its securities are not quoted in an automated inter-dealer quotation system (ie, NASDAQ, but not PORTAL) or represented by American Depositary receipts so quoted except for certain securities that have been traded since 1983.

The Rule 12c-2(b) exemption can be claimed and maintained by furnishing the SEC information of material interest to investors that is required to be, or voluntarily is, made public in the issuer's home jurisdiction. Thus, establishing the exemption is not onerous to non-US issuers.

Although Rule 144A's benefits are far-reaching, non-US issuers will need to consider some technical requirements when securities are privately placed. In reliance on the exemption from registration under section 4(2) of the Securities Act or safe harbour Regulation D thereunder, so as to ensure that the new rule will be available for resales and that the cost of initial placement will thereby be reduced.

Use of Rule 144A is only available for certain securities and is conditional on the provision of specified information by certain issuers. In contrast to earlier proposals, Rule 144A, as finally adopted, contains no additional restrictions of non-reporting, non-US issuers.

Rule 144A is available only for "securities which are not of the same class" as securities listed on a US securities exchange or quoted in a US automated inter-dealer quotation system (which currently includes only NASDAQ, not PORTAL and not bid and ask quotations in the current "pink sheets" of the National Quotation Bureau, Inc.).

Also included as part of the ineligible class are securities of an open-end investment company, a unit investment trust or a face amount certificate company that must be registered under the Investment Company Act.

Warrants that can be exercised for traded or quoted securities less than three years from the date of issue or at an exercise premium of less than 10 per cent are included in the same class as their underlying securities.

Moreover, securities underlying American Depositary Shares (ADS) are deemed to be of the same class where the

ADS are traded or quoted securities. Other securities are generally considered to be in the same class if they are similar in character and rights and privileges. Debt securities are considered to be in the same class, for example, if their terms relating to interest rate, maturity, subordination, security, convertibility, call and redemption are similar.

Rule 144A requires that certain issuers supply specified information to purchasers on request at the time of resale. This arises only for issuers that do not have securities which are (1) registered under section 12 of the Exchange Act; (2) Rule 12c-2(b) exempt, in the case of non-US issuers; or (3) eligible to be registered under Schedule B of the Securities Act, in the case of foreign governments.

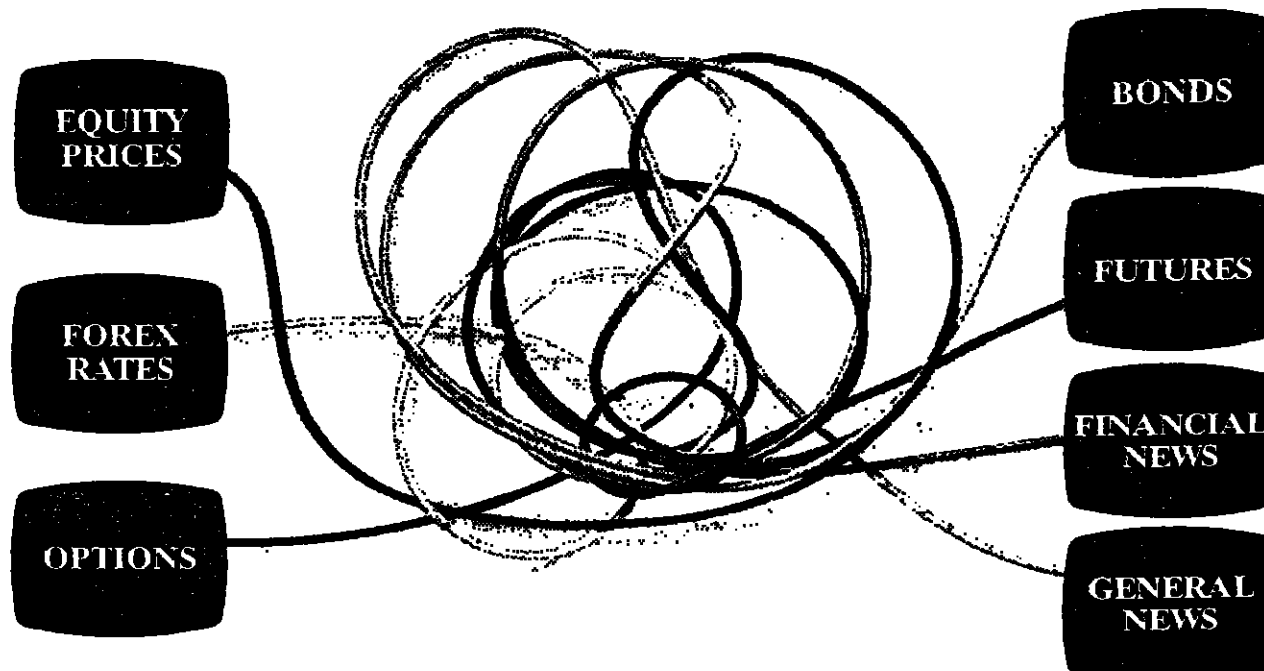
It is unlikely that the informational requirement of Rule 144A will deter non-US issuers from launching offerings in the US based on the new rule. First, those potentially most likely to do so - the over 1,100 non-US issuers already Rule 12c-2(b) exempt - will not be subject to this requirement. Further, non-US issuers can always voluntarily become Rule 12c-2(b) exempt, even where they have not otherwise triggered the section 12(g) registration thresholds. Finally, the information required of those non-US issuers actually subject to this part of Rule 144A is expected to be relatively easy to provide.

The information required under Rule 144A would include a statement on the issuer's business; the issuer's most recent balance sheet and profit and loss and retained earnings statements; and similar financial statements for the two preceding fiscal years or for any shorter period the issuer has been in operation.

In adopting Rule 144A, the SEC was explicit in indicating that Rule 144A in its current form will be re-evaluated and refined over time. With the simultaneous adoption of Rule 144A, PORTAL and Regulation S, the SEC has firmly gone on record that internationalisation of the securities markets, including the US markets, is now under way.

The author is a partner in the Washington office of US lawyers Fulbright & Jaworski

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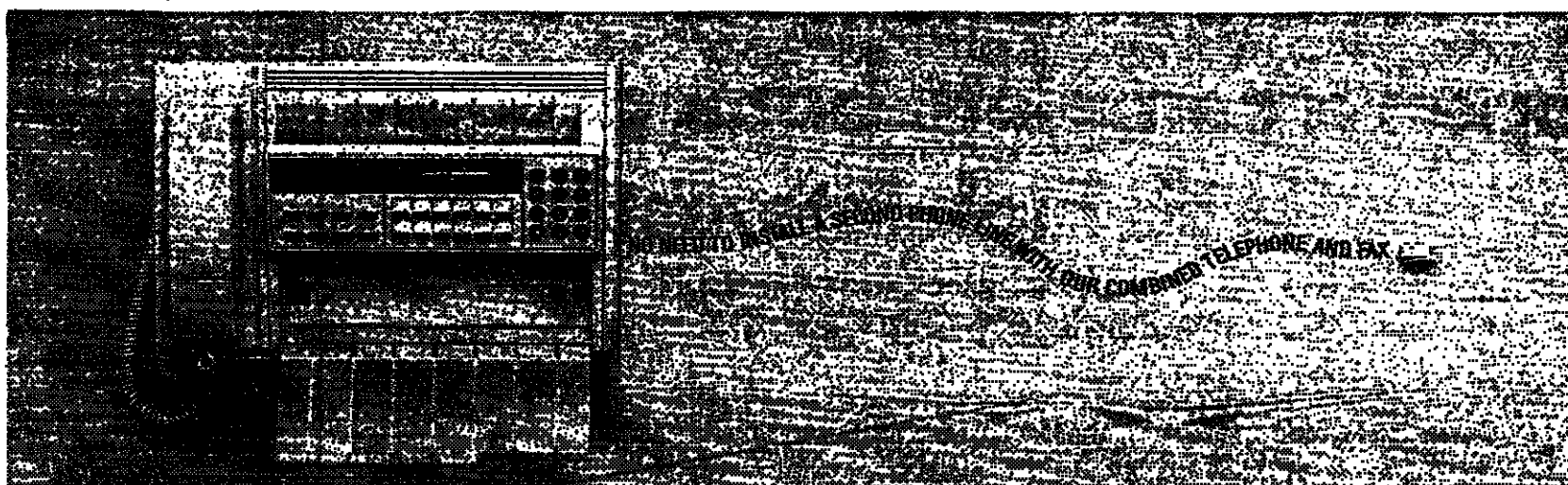
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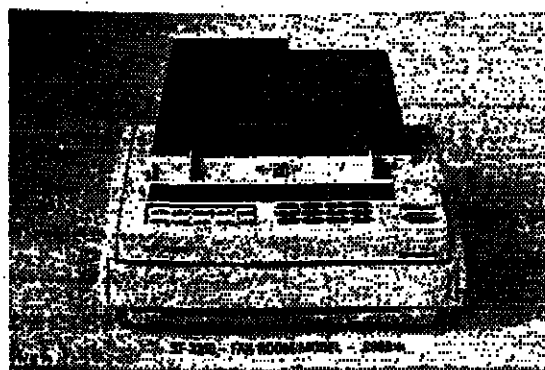
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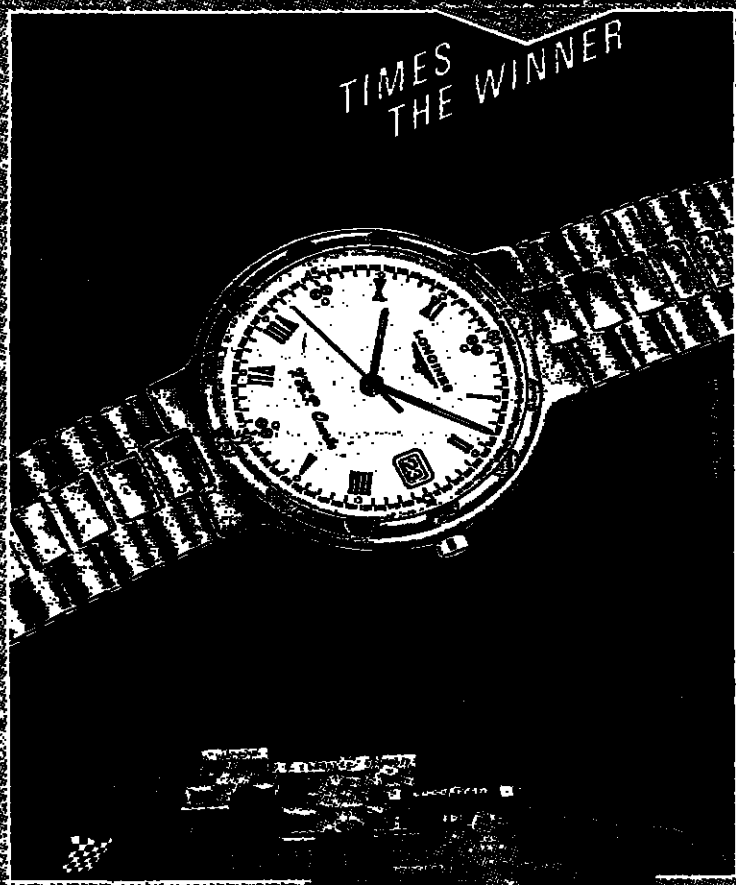
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LONGINES

MANAGEMENT: Marketing and Advertising

Death of an advertising name

Media buying under a new Aegis

Alice Rawsthorn on the restructuring of WCRS

On Tuesday one of the best known names in the London advertising industry will disappear when the WCRS Group rechristens itself the Aegis Group.

The change of name marks the end of the old WCRS Group's ambitions of becoming a force in the international marketing services industry. Only a few years ago WCRS, like so many other publicly quoted London agencies, made most of its money from advertising in the UK, but was determined to diversify into other disciplines and other countries.

Today the original advertising agency has been absorbed into EWDB, the international network controlled by Eurocom, the French marketing group. Aegis has retained a minority holding in EWDB, but has handed over managerial control to Eurocom.

For its part, Aegis will concentrate on Carat, the French media buying business which is now by far the largest part of its interests. The remaining activities comprise a headquarters staff of 15 and a handful of public relations and sports sponsorship subsidiaries.

The catalyst for the restructuring of WCRS was the stock market crash in autumn 1987. Until then the company had made acquisitions after acquisition supported by a sympathetic stock market. WCRS conformed perfectly to the City's clichés of an ambitious young agency. Its directors favoured flamboyant glasses and florid bow ties. They gave out analysts with circulars oozing rhetoric about its embryonic "enterprise of entrepreneurs".

WCRS acquired agencies in the US and Australia and diversified into other disciplines. But it was still too small to compete against the established international advertising networks, like Saatchi & Saatchi and Young & Rubicam. It needed to make more acquisitions, but could no longer depend on paying for them with highly rated shares. After the 1987 crash the environment changed, says Peter

Scott, who was chief executive of WCRS and is now chairman and chief executive of Aegis, "and we had to change with it".

The few deals WCRS did after the crash - including buying 50 per cent of Carat - were paid for with debt. Last spring it decided that, as it could not expand all its interests, it should concentrate on one particular area of activity.

As the original WCRS agency was floundering - it had suffered a series of account losses and staff departures - it was decided to concentrate instead on media buying. Carat, which was founded by the Gross brothers, Gilbert and Francis, was the obvious vehicle. It already dominated the French media market and was expanding into other European countries.

Media buying has traditionally been carried out by specialist departments within advertising agencies. But agencies have tended to concentrate on creative work, often at the expense of media. The Gross brothers exploited this weakness by persuading advertisers to separate media buying from the rest of their advertising and to channel it through their specialist buying business. The Gross brothers are renowned for their negotiating skills. Gilbert Gross is a world poker champion.

Throughout last spring and summer WCRS was embroiled in negotiating the sale of its advertising interests to Eurocom and the purchase of the agency's shares in Carat. It completed the deals in December. The advertising industry, nothing if not emotional, was outraged by a leading agency abandoning advertising for media buying.

Scott is unrepentant. He says his chief responsibility is to shareholders and that "if that means taking decisions that are unpopular with the advertising industry, tant pis".

Aegis is now structured as a conventional holding company. It runs Carat in the same way as its other subsidiaries - Pascoe Nally, the sports sponsorship company run by former

British athlete Alan Pascoe, and the public relations consultancy - by delegating day-to-day responsibility to local management. The Aegis head office in London looks after group strategy and financial matters, such as tax and treasury management.

The re-orientation of the business towards France has had little impact in operational terms, given that Aegis' executives had already dealt with Carat as an associate.

Aegis intends to turn Carat into a network of media buying businesses across Europe. The rationale for its expansion is that the trends in European media of concentration of ownership among the global media groups and deregulation of the television system will make media buying increasingly complex and competitive. This, Carat hopes, should encourage advertisers to switch their media buying away from agencies within marketing services groups into specialist companies like Carat. Carat also plans to buy media for the smaller advertising agencies that may find it too expensive to keep their own media departments.

It has adopted a two-tier structure whereby the buying is carried out by a series of small independent companies which draw on its central resources, such as research. Carat will spend \$2m on media research this year.

Carat now represents 8 per cent of the European media market. It aims to reach a market share of 15 per cent within three years. It will achieve a share of 11 per cent if the French Government agrees to its application to handle the media buying for the Eurocom agencies in France. A decision is expected this month.

Carat is now strengthening its European network. It has just opened an office in Portugal and plans to open one in Greece. It intends to expand in the Netherlands, Scandinavia and eventually into eastern Europe. Aegis also plans to forge closer links between Carat and Pascoe Nally by



Peter Scott: one of the founders of WCRS and now chairman and chief executive of Aegis

developing new areas like programme sponsorship and barter syndication.

The consensus in the City is that so far Aegis' new strategy has succeeded. The group recently announced profits of £16m before tax and extraordinary items on turnover of £245m for the six months to December 31.

Media buying is a buoyant market and Carat is well placed to expand in the future, says Lorna Tibbani, an advertising analyst at Warburg Securities. "But the media buying market is about to become much more competitive."

One problem is the response of the other ad agencies to Carat. Some small agencies, notably in Italy, have banded together in "media clubs" as a defence against Carat's growth.

But the main threat comes from the large agencies which have centralised their media buying in some countries. The networks owned by WPP and Omnicom have formed the Media Partnership. The international agencies have created initiatives. Saatchi has centralised its UK buying into the Zenith buying operation.

These new units have already taken some business away from Carat. It recently lost its Omnicom account in Paris to the Media Partnership.

More important, the new units are intensifying the pressure on profitability. Margins in French media buying have already been depressed by the emergence of the new buying

groups. Another potential problem is a French government inquiry into media buying in France. The inquiry should be completed by the end of next year. In the meantime Aegis' share price is almost certain to suffer. In the longer term it faces the threat of legislative intervention in France, its biggest single market.

The spectre of increased competition and legislative controls comes at a time when Aegis is already under financial pressure. The group has hefty borrowings: with net debt of \$72m on negative net assets of £112m at the year end. It must also pay another \$100m for Carat over the next four years. This payment, which will be in cash and possibly shares, is not performance-related so Aegis will have to find the money whether Carat saves or not.

These financial constraints mean that Aegis will be dependent on organic growth. There may be some small acquisitions for Carat and possibly Pascoe Nally. But most analysts suspect it will have to reduce its holding in EWDB as it will be unable to help finance its expansion.

Over the next few years Aegis will discover whether its new strategy can succeed in an increasingly competitive climate or whether it may eventually find itself back in a position of being overly weighed down with debt and unable to expand.

Seeking a wider market for a perfume of Arabia

Victor Mallet explains the strategy for Amouage

Six years ago Sayyid Badr bin Hamood Al Bu Said and his family, members of the Omani royal line with extensive business interests in the Sultanate, hired Frenchman Guy Robert to create a classic fragrance.

The outcome of Robert's efforts was "Amouage", a perfume giving an exotic oriental image associated with the frankincense trees of southern Oman and a price tag which made it the most expensive in the world. Amouage was one of a number of Oman's attempts to diversify its economy away from reliance on oil and gas, and the perfume has now become the flagship of the Sultanate's efforts to move into new markets.

Amouage, a French translation of an Arabic word meaning waves (marine or emotional), is imported from France and bottled in a small factory near Muscat airport. It was sold largely in London, but is now spreading rapidly overseas.

Since his appointment as managing director 18 months ago, Paul Griffin, a British former advertising executive, has helped Amouage to penetrate world markets by cutting the perfume's price, delicately adjusting its Arabian image and packaging, targeting duty-free shops and airlines, and advertising in Vogue. Amouage soap is already available and a number of other toiletries and accessories are in the pipeline.

Prices, which were once double those of its nearest rival Joy, made by Jean Patou, are now only 10 to 15 per cent higher, a tactic which, Griffin believes, brings Amouage within reach of more customers without losing the cachet of the world's most expensive perfume.

The costly gilded silver containers designed by Asprey (an Islamic-style design) and the women's fragrance and an Omani dagger handle shape for the men's have been supplemented by French lead crystal bottles for women which have the same dome motif but which, Griffin feels, have a more sophisticated feel.

Retail prices of standard Amouage products now range from \$60 to \$200; special flasks inset with lapis lazuli, onyx



Guy Robert: creator of Amouage

and other semi-precious stones are even more expensive. "Part of our brand positioning is our precious metals line," says Griffin. Other perfume houses have often started off in haute couture and branched out into fragrances; Amouage is not planning to compete in the market for silk scarves, but will try its hand at pens and cuff-links. "We feel that is a logical sequence," Griffin says, "because of our experience in precious metals."

The company holds sales courses for airline crews, such as those of Saudia, and encourages them with hefty commissions. This has paid off by consolidating Amouage's position on the airlines and in the duty-free shopping centres of the Gulf. Griffin has now moved into the Pacific, with duty-free outlets from San Francisco to Singapore.

Duty-free sales now account for about 30 per cent of Amouage's business, while the non-Gulf share of total sales has risen over the past two years from about 5 per cent to 25 per cent, and is still increasing.

Amouage is now sold through 60 outlets around the world. That may rise to about 100 in the next couple of years, but Sayyid Badr and Griffin are conscious of the danger of over-expansion and the need to maintain an image of exclusivity.

"We've found through bitter experience (in the Gulf) that there's a limit to how much Amouage you can sell," says Griffin, who notes that increasing the number of outlets in a given country does not necessarily boost sales among such a select group of customers. Geographical expansion is,

therefore, the key, and there are plans to attack the French market in the near future. Harrods is likely to remain the only outlet in Britain.

Like any fast-expanding small company, Amouage has experienced growing pains. Production facilities are over-stretched, so the company plans to set up a second production line in Muscat, increase the workforce from the current level of 25, and introduce a three-shift system for continuous operation.

Management has already been streamlined by allowing the company to operate independently of the family-owned Omani conglomerate Sabco; previously Sabco's board, which was unable to devote all its attention to Amouage's international efforts because it was also dealing with dozens of other companies in areas ranging from contracting to agriculture and real estate.

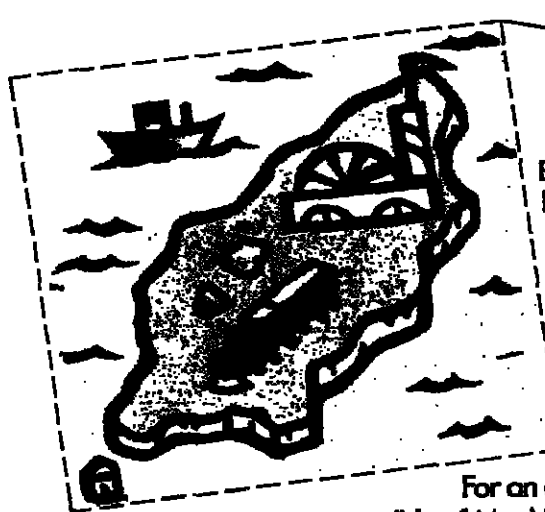
With a wholesale turnover of around \$5m, Amouage is still not large enough to win substantial bulk discounts on inputs such as perfume bottles. Cash flow can also be difficult as the business expands. "Our biggest problem is that we buy 80 per cent of what we need in Europe on 30-day terms, and sell 75 per cent in the Gulf, where 120 days is normal," says Griffin.

Perfume, however, is all about marketing and high mark-ups. "If the cost of goods is more than 10 per cent of the end retail price, we are out of business," says Griffin. "The trade takes more than half."

The skills of Guy Robert, who also created Madame Rochas, have combined with an effective marketing strategy to establish Amouage as a classic perfume with a touch of oriental mystery. There are frankincense trees in Oman, but Amouage, like most of its rivals, creates only a small amount of synthesised frankincense oil.

"Up to about 12 months ago we were so small that nobody really bothered very much," says Griffin. "Now that we've got some packaging with more appeal I think they are beginning to take it a little bit more seriously, and in some markets we are very close to doing the same volume as Joy."

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Joint Administrative Receivers (joint holder nos 688 and 689) of Cork Gully, Churchill House, Churchill Way, Cardiff CF1 4DZ

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No. 502789 of 1989
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IN THE MATTER OF
WHIPPEY-DAVIS LIMITED
AND
IN THE MATTER OF THE
COMPANIES ACT 1985

NOTICE IS HEREBY GIVEN that a Petition was on 29 April 1989 presented to Her Majesty's High Court of Justice for the confirmation of the resolution of the shareholders of the above-named Company to wind up the Company under the provisions of the Companies Act 1985.

AND NOTICE IS FURTHER GIVEN that the said Petition is directed to be heard before the Honorable Mr Justice Vauxhall at the Royal Courts of Justice, Strand, London, W.C.2A 9LL, on Monday the Fourteenth day of May 1989.

ANY Creditor or shareholder of the said Company desiring to oppose the making of an Order for the confirmation of the said resolution of the shareholders or the said winding up of the Company should appear at the time of the hearing in person or by Counsel for that purpose.

A copy of the said Petition will be furnished to any such person requiring the same by the undersigned solicitors on payment of the regulated charge for the same.

Dated this 30th day of April 1989.
Solicitors & Co.
11, Molesworth Street
Oxford, OX1 2PZ
Ref: 502/WHIPPEY ADVERTISING 1004
Solicitors for the above-named Company

PUTNAM EMERGING HEALTH SCIENCES TRUST S.A.

SICAV
Luxembourg, 11, rue Aldringen
L-1015 Luxembourg No B 20938

Notice of Extraordinary General Meeting

The shareholders of Putnam Emerging Health Sciences Trust S.A. are hereby convened to attend a second Extraordinary General Meeting of shareholders to be held at the registered office of the Company on June 5, 1990 at 3.00 p.m. with the following agenda:

Agenda

1. Amendment of the corporate documents in Article 1 so as to omit therefrom "S.A."
2. Decision to delete the text of Article 7 and to renumber the two last paragraphs of Article 6 to constitute the new Article 7.
3. Amendment of Article 21 first paragraph, lines 18 and 19 to delete the words "and adjusted for the effect of any warrant outstanding".

Due to the fact that a first Meeting held on April 17, 1990 did not reach a quorum and that it is hereby recommended by the Board of Directors in accordance with the Luxembourg Law, there is no quorum requirement at the second general meeting, at which resolutions shall be passed at a majority of two thirds of the shares present or represented.

The Board of Directors

EUROPEAN INVESTOR'S WEEKLY

by GUTTMANN & MARCOVICI

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ARTS

CINEMA

A rush of blood to the head Down Under

Jane Campion's *Sweetie* is the best Australian film of recent times. It proves the long-established theory that since life in the Antipodes is lived upside down, normal existence is impossible. Blood rushes to the head and shoes must be magnetised to the earth. In these conditions it is quite possible that two mentally disturbed sisters would wreak havoc among boyfriends, family and each other.

Kay (Karen Colston) is slim, nervous and phobic about trees. Her dreams are haunted by the sapping cracking through her paved frontyard. Dawn, nicknamed "Sweetie" (Genevieve Lemon), is fat, emotional and failed in show business. (She wanted to be a singer.) Kay spends the movie's first half quarrelling with live-in lower Louis and being polite to moved-in sister Sweetie, who has arrived trailing clouds of chaos plus a pocket torch. Then Kay, Louis and Kay's Dad flee Sweetie's tantrums by motoring off to see Mum, who is resident cook in a sort of Outback cowboy town. Soon Sweetie is chewing china animals and wrecking the house. She has been left in. And worse is yet to come.

Campion does not actually attribute these people's problems to Australia's upside-down position on the globe. But she does take conventions of Australian drama — the family soap opera, the outback idyll, the career dreams of the country mouse or suburban squirrel — and turn them up by the ankles so that blood thunders to the brain.

Sweetie is my brilliant *Cher* hoist by the heels and held till its head turns red. For the feminist achievements celebrated in *Thelma & Louise*, *Sweetie* is a psycho-sexual thriller, a girlie-movie heroine, read a pair of schizophrenic sisters (which adds up to four warring identities). The movie ends with Sweetie, who has been chewing the afore-

SWEETIE
Jane Campion
SHE-DEVIL
Susan Seidelman
SEE YOU IN THE MORNING
Alan J. Pakula
INTERNAL AFFAIRS
Mike Figgis
NUNS ON THE RUN
Jonathan Lynn

said china and carving up the furniture, painting her nude body black and climbing a tree. From here she yells blue murder at the returning family and the last reel *Wahlgemisch* begins.

Celia showed us an Australia where bad little girls dream of monsters and commit manslaughter. Its bizarrities were slipped into a naturalistic setting and performance style. In *Sweetie*, first-time feature director Jane Campion — formerly a prize-winning maker of short films — gives the whole movie the glint of visionary madness. The colours and camera angles suggest Diane Arbus let loose in Wonderland. (The cinematography is by Sally Bondage. This is a dead-end street for Dawn French.) And the storytelling combines moments of near-sleazebag anarchy with a darker, fiercer pessimism.

Whenever you think the movie is about to decline into a down-under French and Saunders' (Ms Lemon herself is a dead-end street for Dawn French), it changes into a more lethal gear and suggests a 'strange' Strindberg. The cumulative effect is funny and shocking, ridiculous and sublime: the

portrait of an idyllic land fissured by identity crisis.

In this feminist age, as women rise up from 10,000 years of oppression (give or take a millennium), they will inevitably be depicted as monsters as well as justice-seekers. One would expect such depictions to be perpetrated mainly by male directors, guarding their collective ego. Yet both *Sweetie* and *She-Devil* have all-female writing and directing credits.

Susan Seidelman's *She-Devil* takes Fay Weldon's already-televized novel and makes a mess of turning it into a movie. Meryl Streep alone strides tall, as the snooty lady novelist who whisks new boyfriend Ed Begley Jr from the tender embrace of his plump, plug-ugly wife Roseanne Barr (American TV's favourite housewife who, according to the *Daily Mail*, has her sights set on the American Presidency but here kitted out with wart and moustache). Miss Barr swears vengeance, and the mayhem begins.

Streep is wonderfully funny as she orchestrates her symphony of airs of graces: from purring ingratiating on TV chat shows to amorous swooning in the role of nun, housewife and lesbian. As her own exquisite creation, "Writing can be so, so lonely!" she exclaims soulfully, and smashes a cognac glass to the floor. Goodness knows on what real-life scribe, if any, Streep based this performance. It is like Ethel Glyn rolled up into Edna O'Brien. And it shows that an actress we thought of as La Fonderosa can also be La Hilariosa.

The movie's problem is Ms Barr. Underplaying a role that needs judicious overplaying, she is like a coma victim essaying Lady Macbeth. Gifted with lines that should bring the house down — "I'll go get a strainer" she comments when a gerbil is found in one of her stew — Barr's flat, nasal readings barely register 0.01 on the comic Richter scale.

The result is a black comedy with a black hole in the middle. And the director's sex may be to blame. Unlike Jane Campion, Susan Seidelman looks to have had a failure of nerve with her own "she-devil." Loyal to her sex, she cannot make a monster of her avenger anti-heroine. So we have the ludicrous spectacle of a chain of vengeance enacted by a woman who barely displays the energy to get up from a crumpled bed in the morning. There is no point in the devil having the best times if he or she is denied the expressive bravura with which to play them.

Oh for a devilish time in *See You In The Morning*. This pious emotional drama was written and directed by Alan J. Pakula (*Kluge*, *All The President's Men*) from memories of his own divorce. It could, I fear, have been written and directed by a computer from memories of yesterday's weepies. Piano music sheds its ivory tears over the tale of Dr Jeff Bridges' well-heeled psychoanalyst, who divorces beautiful Farrah Fawcett and marries beautiful but younger Alice Krige. Will he find happiness? More important, will the children adjust to the change of movie star in the role of mum, housewife and lesbian?

Someone should have come in and performed some cuisine art on Pakula's script. This runs to untrimmed literary growths like "Need, the great seducer" and blushing foliations like "I wanted to lie with you in the haunted moment of the night." Failing to fight its way out of a smiling-through-tears preciosity, the film leaves us feeling that the problems of the rich are indeed different from our own. They can afford to turn minor life into forty-carat woe. (Bridges and Krige are both migrants in the land of the rich, as we know.) And they can make a scene of pushing airport luggage up a busy ramp into a metaphor for the Sisyphus struggles of the emotions, when most of us would



Genevieve Lemon and Karen Colston in Jane Campion's 'Sweetie'

just be glad we could afford the air tickets.

Internal Affairs is a rumbustiously seedy police thriller directed by Britain's Mike Figgis (*Stormy Monday*). "Film noir" would understate the film's style, as corrupt police detective Richard Gere and "internal affairs" cop Andy Garcia prowls through a shadowed, slatted, Stygian Los Angeles: a place where a pocket torch is as necessary as a snog mask.

Garcia is out to noble Gere because Gere is, or could be, a killer. Also because Gere, a spare-time Lothario, is making a play for every police colleague's wife, including Mr Garcia's. Two hours of cunning cat-and-mouse ensue, which runs out of floor-space only at the end when contrivance brings about the inevitable face-to-face shoot-out. Much doomy electronic music (which sounds like the mellifluous moaning of whales); much wooden-

Indian ferocity by Garcia; and much light-heeled, impudent charisma from Gere in the gift role of a cop you love to loathe.

British movie comedy is a dear, defenceless thing and we must all give generously from time to time. But I refuse to fork out a single p for *Nuns On The Run*. One: it is already making enough money in America. Two: it is excruciatingly unfunny. Robbie Coltrane and Eric Idle are the bank robbers hiding out in a London nunnery and soliciting our choruses for the transvestite consequences. If your sides burst at the mere sight of a reasonable countenance donning a snood or wiggle, Jonathan Lynn's witless film may be for you. If not, set *Some Like It Hot* from your video shop and see how cross-dressing comedies should really be done.

Nigel Andrews

The Duchess of Malfi

THE PIT

The film of Tennessee Williams' *Suddenly Last Summer* took a powerful leap from John Webster's Jacobean shocker when the asylum-confined Elizabeth Taylor crossed a bridge over a room full of madmen who leapt and clawed at her, much as the lustful Duchess is surrounded by harrowing humdrums as a torment. Cinematic parallels recur throughout Bill Alexander's production: the compactness of plot, the inexorable fashioning of which "having fashioned themselves of nothing, they strive to bring themselves to nothing," are unmistakable elements of film noir.

First seen in Stratford last November, this production has one notable cast change. Stephen Bonar plays Bosola, the madhouse "spy"-turned-murderer, without the conventional hint of Machiavellian villainy. This is an interestingly understated performance, dead-pan, watchful, cool with detached, bespectacled apathetic disposing of cadavers

when necessary, but occasionally erupting into lugubrious snarl (wolf imagery looms large with Webster's darkling muse) of anger and self-contempt.

The actor uses a naturalistic technique successfully, less successful is such literalness applied to the madmen (the scene almost as neither harrowing nor moving) or the murders of the Duchess and her lady, where spasmodic twitching and thrashing bring an unwelcome clinical touch to the black poetry.

Harriet Walter's Duchess is for the most part strong and moving, touchingly vulnerable in the woe of her steward (Nick Ford, a trifle stiff and cloying), though the grief that nearly unhinges her is almost impossible to convey the most-often-quoted line: "She convulses in both the dignity of her station; and the fragility of her happiness, less in staring at the depths of tragedy. As the elder of her murderous brothers, Prince Ferdinand, impressive Melkon kneels, patently bulg-

ing with evil, does not avoid the melodramatic scowl — and Sally Andrews' poor Carlos, finally resorts to gazing incredulously, as well she might, as horror piles on horror.

Futini Dimov's set is oddly clean-lined with right-angled doorway and metallic-looking gallery, all of which suggest even more Humphrey Bogart as Bosola and Claire Trevor as the lustful Julia, the Cardinal's mistress who falls for him and pays the price. In fact Patricia Kerrigan is outstanding in the role, very proper courtesan brandishing her tiny pistol with style.

The production's strength lies in its clarity, the briskness with which it recounts the tragedy. If the cast could hide their detachable self-consciousness at moments of gore and outrage, and overcome their obvious fear of overdoing it, it would perfectly evoke Webster's gloaming charnel-house genesis.

Martin Hoyle Harriet Walter and Bruce Alexander



Harriet Walter and Bruce Alexander

Tokens of Affection

DERBY PLAYHOUSE

Four of the characters in Maureen Lawrence's play are maladjusted girls in a special teaching unit; the other three are the staff. Each of them has been given a quality that shows the variety existing in what, from the outside, might seem a sterile people.

The school is run by middle-aged, stern Annette (Madeline Blakeney) and rather younger, more liberal, Nancy (Lucinda Curtis). To assist them comes Gillian (Beatrice Comins), divorced, with a family, but with no experience in such work. The three approach their task in interestingly different ways. Annette lives by the rule-book. Privileges are available to the girls — sweets, cakes, tea, even taken in lieu of uniforms — allowed for good behaviour or withdrawn for naughtiness. Annette dispenses these with one object, to keep the kids under control.

Nancy's wider ambition is not only to control but to reform. Gillian, the maladjusted, is moderate at control, has no theories of reform, but is

moved by humanity. To her the girls are not pupils, or patients; they are teenage children who need understanding — each a different kind of understanding. Tubby, flamboyant Debbie (Charlotte Barker, fine playing) cares only for her own satisfaction, no matter what trouble this may cause. She is particularly close with Kelly (Gillian Wright), fresh in from Court after a rape. Poor, grubby Liane (Jackie Luck), who has never known affection, is the butt of all the mockery these two can devise.

The fourth girl, Andrea (Teresa McElroy), is another matter. She may prove to be a mental case, while the others are only naughty; she spends most of the dialogue and chalked on the wall of Roger Bourke's design, an unfriendly schoolroom with an unfriendly office in one corner. But there is nothing unfriendly in Maureen Lawrence's humanity. Affection is indeed her theme.

B.A. Young

Las Hermanas

SADLER'S WELLS

The family has ever been a favoured location for Kenneth MacMillan's explorations of the human psyche. Within the clear structure of its relationships he finds causes for anguish and subterfuges — and affections — which he examines with clinical precision. From the extraordinary family of *Anastasia* to the haunted siblings of *My Brother, My Sister*, he has probed and guessed the character of the while, a language of rare expressive potential.

Las Hermanas remains one of his most direct and succinct exercises in domestic tension, and given performances as taut as those from Sadler's Wells Royal Ballet's artists on Tuesday it has lost none of its power to hold the viewer.

It is melodramatic in outline, with its matriarchal bully and frustrated women; its losses are furthered by its emotional raw, yet the choreography, and the interpretations it inspires, never cheat, nor stress the obvious. Instead, the characters are drawn with penetrating clarity: the three chief sisters exist as individuals from the moment we see them rocking in the chair, the brutal author (Joseph Cipolla) has to stand in his too-tight clothes for us to know him.

Marion Tait as the eldest sister catches all the frustration and repressed sensuality of her role, so piercingly fixed by a circling gesture of her linked hands; Karen Donovan and Rosalinde Mire as the middle and youngest sisters offer studies in

seething and violently opposed emotion. And at the ballet's end we know about these women, and the ardour of their future.

There could be no greater contrast than the flirtations and ambiguities with which Graham Lustig enlivens the Poulenc two-piano concerto in his *Paravous* in this new programme at the Wells. Two couples flirt at an elegant party. There are little mysteriousnesses as Marion Tait is involved with David Yow and then with Peter Jacobson. But Jacobson is also caught up with Galina Samsova, whom we are finally told has protective feelings for Marion Tait.

Permutations of feeling, glances that give too much away, avowals that give too little, are the fabric of a lightly

confected piece that reveals in flashbacks, and delights by the finest way its cast present the choreography. It is a trifle, but its central quartet treat every least moment with the proper seriousness, and we are intrigued and held by something as prettily iridescent and impermanent as a soap bubble.

The house-bounce in an evening that ended with *Elle Syncope*, was Miyako Yoshida and Tony Fabre, buoyant and quick-footed, in the *Don Quixote* pas de deux. They had the groundlings in a roar. The two considerable scores of the evening — for *Las Hermanas* and *Paravous* — sounded very well under Philip Ellis's baton.

Clement Crisp

Thomas Zehetmair

BARBICAN HALL

Tuesday's English Chamber Orchestra concert was a most enjoyable affair. With Jeffrey Tate conducting a brace of the best Mendelssohn and a brace of the latter's Oberon Overture began with unwonted sobriety, more grave than usual, but with the Allegro took off in high spirits. In his Clarinet Concertino the soloist Thea King, in her deceptively simple, strewed witty insights on all Weber's music. I thought she sounded unconvinced about the recently discovered cadenza by Heinrich Joseph Bärmann, the dedicatee of the Concertino, though she

gave it a good run for its money.

Mendelssohn's "Italian" Symphony was properly exuberant in the quick movements, with a strongly sculpted Andante. The *salvo* Finale generated the proper excitement, despite a surprising amount — for the ECO — of imprecise ensemble. Even the racing woodwinds were continually a fraction of a beat apart — and in the Barbiere acoustic, Mendelssohn's lively wind-parts sometimes drowned the strings; and yet the eager drive of the whole movement was irresistible. Tate's classical reading was engineered to confident effect. It was the more impressive after his scrupulous support for Thomas Zehetmair's reading of Mendelssohn's Violin Concerto.

Salzburg-born and bred, Zehetmair is a fascinatingly way-

ward performer. He cultivates not only a feathered, entirely personal tone of unabashed domestic-Austrian sweetness (plenty of *portamenti*), but an imagination that disdains virtuoso routine. The very idea of polishing every note to maximum brilliance is plainly anathema to him: he is likely to slide casually over the hoariest, most "effective" passages — though his quicksilver, playing in the Finale was magical — in favour of lighting other parts of his music from unexpected angles. It's a kind of second-order interpretation, if you like, which presupposes our familiarity with conventional, thrusting treatments of a score, the better to explore the expressive potential of its neglected corners. Probably every time and what could be higher praise?

David Murray

ARTS GUIDE

EXHIBITIONS

London

The Tudor Gallery. The entire permanent collection has been rehoused so that the visitor may now take a natural circuit through the newly restored galleries. The collection covers the 16th century British painting through to the most recent of modern international art. It is a curatorial triumph. The Royal Academy, Modern Masters from the Gahan Collection — a self-explanatory exhibition of masterpieces of the 20th century from Edward and Gertrude Pincus to Picasso the old man, by way of all the great names of the School of Paris, Matisse, Modigliani and the rest. Until July 15, sponsored by Guinness.

Paris

Grand Palais. Soliman Le Magnifique. A treasure trove of goldsmiths' work, miniatures, ceramics and textiles recast the splendour of the reign of Soliman "the shadow of god on earth", whose Ottoman Empire stretched in the 16th century from the Caucasus to the gates of Vienna and from Aleppo to the Persian Gulf. Closed Tue, Wed late closing, ends May 14 (4895410).

Musée d'Orsay. The Fragmented Body. Parts of the human body, or the incomplete body form the leading strand of an exhibition beginning with ex-votos and reliquaries and culminating in a celebration of Degas, Bourdelle, Matisse and especially of Rodin with his mastery transition from realistic to abstract sculpture. Ends June 3, closed Mon.

entrance Quai Anatole France

(40494810)

Musée Carnavalet. Antique bronzes. Some 400 bronzes from the 18th century world up to the 19th century. They are grouped in glass cases around a divinatory surrounded by the bronzes of the 18th century. Closed Mon, ends July 1 (4729213).

Musée d'Art Moderne de la Ville

de Paris. Kees Van Dongen. 122 works retrace the career of the painter who, as one of the *Fauves* enjoys provoking the public with daring juxtapositions of violent colours, charcoal contours and green shadows. The Dutch-born artist goes further and shocks with erotic subjects and poses, only to subside later into portraits of the elegant and famous. 11, Ave President Wilson, Closed Mon, late closing Wed, ends June 11 (4729213).

Grand Palais.

Francis Picabia. 122 works retrace the career of the painter who, as one of the *Fauves* enjoys provoking the public with daring juxtapositions of violent colours, charcoal contours and green shadows. The Dutch-born artist goes further and shocks with erotic subjects and poses, only to subside later into portraits of the elegant and famous. 11, Ave President Wilson, Closed Mon, late closing Wed, ends June 11 (4729213).

Musée d'Art Moderne.

Retrospective of the Belgian abstract/expressionist artist Engelbert van Anderlecht (1919-1981). Closed Monday, ends May 13.

Ghent

Museum voor Schone Kunsten. Flemish Representation in a European Context (1500-1850) with works by De Smet, Bruck, Permeke, Van den Bergh and Zand-

kine. Closed Monday, ends

June 10.

Venice

Palazzo Grassi. Andy Warhol Retrospective. 250-works from the major exhibition organised by Ken Scharf and the Venice Biennale. In New York last spring, to which have been added about a dozen from private Italian collections. The show has since toured Chicago, London and Cologne, to end its tour at the Beaubourg in Paris this summer. Until May 27.

Rome

Basilica di Carlo Magno in Piazza San Pietro. Michelangelo and the Sixtine Chapel. This exhibition marks the end of a 10-year stint by Vatican restorers on the ceiling of the Sixtine Chapel and the beginning of an estimated further four years' work on The Last Judgment. Remarkable for the exceptionally generous opening hours (open every day except Wed and on Sat from 9.30am to 11.00pm) and hand-some catalogues as well as a rich collection of drawings by Raphael, Rubens, Annibale Carracci, showing clearly Michelangelo's powerful influence, the exhibition also carefully documents the techniques used and the difficulties encountered by the restorers. Ends July 10.

Palazzo Venezia.

Art for Popes and Princes of the 17th and 18th centuries. Over 70 large and exuberant canvases from the country seats of Popes, Cardinals and the Roman aristocracy (Chigi, Barberini, Colonna, Pamphili etc.) in the area stretching south of Rome, once known as the

Campagna Romana. Not surprisingly, most of the subjects are religious, but varying from the impudic and meditative account by Van Wittel, of Pope Clement XI's visit to Albano to the splendid rest on the flight into Egypt by the Venetian Carlo Saraceni.

Madrid

Museo Arqueológico Nacional. Art in the court of Naples in the 18th century. Different examples of art including paintings, sculpture, furniture, porcelain and tapestries produced during the reigns of two Bourbon kings: Charles III and his son Ferdinand IV. Ends May 8.

Munich

Kunsthalle der Hypo-Kulturstiftung. Theaterzeit. 15. Joan Miro a collection of scintillating sculptures and previously unpublished drawings by Miro will be on display in Munich's Kunsthalle until June 17.

Scharbücken

Moderna Galerie. Growing on the shore. Retrospective of Paul Klee (1879-1940) in honour of the 50th anniversary of his death with around 190 oil paintings, watercolours and drawings from all periods, to be seen until May 27.

Vienna

Kunstforum. Works by the Romantics, ranging from Caspar David Friedrich to Adolph Menzel. Museum für Volkskunde has a marvellously exotic exhibition

called Jemen, focusing on the

world around the Queen of Sheba. Ends June 10.

New York

New York Public Library. More than 125 documents of the Abolitionist Movement, including photographs, letters and rare books, display the spirit and drive of the long fight to free the slaves. Ends Sept 15.

Museum of Modern Art.

In its serious, thorough way the museum gives its version of the history of photography, showing off earlier image-developing techniques along with 275 photographs. Ends May 28.

Washington

National Gallery. A Joint Soviet-American collaboration brings together Matisse's fruitful and arguably pivotal work in Morocco during his visit in 1919-13 including 28 paintings and 45 drawings, among them the famous Moroccan *Triptych* from the Pushkin Museum, never before exhibited in America. Ends June 8.

National Museum of Women

in the Arts. The first major retrospective of the work of Dame Elizabeth Frink includes 60 sculptures and 25 drawings, including monumental bronze casts of male figures, portraits and animals in characteristic roughly textured heroic poses. Ends July 4.

Chicago

Chicago Historical Society. The Land of Lincoln does its most famous citizen proud in the exhibition: A House Divided. America in the Age of Lincoln, with documents, mementos and personal

April 27-May 3

effects of last century's Great

Emancipator.

Chicago Historical Society. A special exhibit of Frank Lloyd Wright's designs for art-glass windows, furniture and silver shows why the details completed the distinctive Wright look. Ends June 17.

Tokyo

Tokyo National Museum. National Treasures of Japan. Painting, sculpture, calligraphy, craftwork, archaeological artefacts from prehistoric times to the Edo Period.

National Museum of Western Art. Bruegel and Dutch Landscape. 35 paintings on loan from the National Gallery in Prague.

The centrepiece is Pieter Bruegel the Elder's magnificent *Haymaking*, with its wealth of circumstantial detail, and the focus is on the development of landscape painting as a genre from its beginnings in about 1500 to the mid 17th century.

Museum of Modern Art. Pursuit of the Dragon: Tradition and Transition in Ming Ceramics.

Major examples of Chinese porcelain drawn from the museum's own extensive collection.

Shoto Museum, Shibuya. Post-war Japanese Art. Paintings and sculpture mainly by members of the Gutai Bijutsu Kyokai group, who tried to fuse a distinctive Japanese avant garde style.

Maguro station. The Kahnweiler Collection. Major works from the personal collection of the art critic and dealer who promoted the work of Picasso, Braque, Gris and other pioneers of Cubism.

SALEROOM

Spencer record for school

Aldenhams School is £132m (minus 10 per cent) richer following the sale at Sotheby's yesterday of "The Crucifixion", a late work by Stanley Spencer which had hung in its chapel for over 30 years. It was bought by the collector-dealer Ivor Bracker who had to pay a record price for a Spencer, and well above the top estimate of £400,000. Indeed the price was a record for a "modern" British artist as against a "contemporary" artist, like Bacon, Freud and Hockney, whose best work might make more.

Spencer is enjoying a critical revival and two months ago Christie's set a record of £700,000. "The Crucifixion" was commissioned by Jack Martineau, Master of the Brewer's Company, a friend of Spencer, and of Aldenhams, which quickly realised it had a masterpiece.

The auction of Modern British pictures totalled £3,582m with 17 per cent unsold. A 1922 portrait by Sir William Orpen of his mistress Yvonne Aubrey, showing her naked and taking a light but sensual breakfast, sold for £319,000, double the

estimate and a record for this celebrated society painter. Six years later Orpen painted her off with a Rolls Royce and its chauffeur, who she subsequently married.

The auction produced an encouraging burst of records, including the £143,000 for a French landscape by Rodolphe O'Connor, £22,500 for "The Birth of Venus", a striking nude made surrounded by black fishermen, by William Roberts; £40,700 for "Wild Flowers" by Winifred Nicholson; and £24,300 for "A garden scene" by Roger Fry.

Also at Sotheby's a Galle carved cameo and enamelled onion shaped glass vase, made in 1894, sold for £121,000. It showed a good return for its owner who had bought it in the same auction room 25 years ago for £55. A large Galle internally decorated and in a bronze foot, of around 1880, did well to make £128,500 in a successful applied arts auction which brought in £240,000 with only 4 per cent unsold.

Antony Thorncroft

FINANCIAL TIMES

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Thursday May 3 1990

Gorbachev in the club

UNHAPPY the country where the leader is worshipped. On that test, the events in Red Square on May Day should be judged as increasing the happiness of the Soviet people, and the happiness of the west with Mr Mikhail Gorbachev. He has now joined the club of those heads of state who provoke public fury on the part of some and who do not or cannot stop them showing it.

President Bush was heckled over his invasion of Panama; Chancellor Kohl was booed in West Berlin the day after the wall was opened; Mrs Thatcher, now, would receive the same treatment were the audience as was carefully selected. It is one of the necessities of power — and for ours, it is precisely because the holding of Soviet power has been, since the Brezhnev era, such a low-priced business that its politics, its economy and its society are so miserably stagnant. The dead hand of Brezhnev autocracy has left a fearsome legacy for Mr Gorbachev. He cannot, were he twice the democrat he is, destroy it by himself. Thus the appearance of such slogans as "Marxism-Leninism in the dustbin of history," "Communists, have no illusions, you have failed," and "Ceaseless of the politburo, get out!" is of great consequence to what he has managed to do by his own efforts. Soviet society is now producing politically-motivated rather than politically-organised groups, which is good news.

Official reaction

The problem, if there is to be one, is not the appearance of the slogans, but the reaction to them. It may be vented but the other hand, the reaction to them is of great consequence. One. Radical Moscow was allowed to display itself at the foot of the Lenin Mausoleum and standing on it was Mr Gavril Popov, the new mayor of the capital and a radical himself, repeating smiling through the demonstrators' demands in which Mr Gorbachev's fingers drumming on the parapet. Mr Popov represents the force of democracy, which Mr Gorbachev has never frontally challenged — even over the Lithuanian issue. He has grumbled, stamped, threatened, but he has not.

Scandal in the Isle of Man

EVENTS on the Isle of Man, a small offshore financial centre in the Irish Sea which is home to only 68,000 people, may not impinge much on the world at large. But there are wider lessons to be learnt from the saga of the Savings and Investment Bank which reached a messy conclusion last week. These lessons are both for investors who place money in offshore centres, and for those centres themselves as they seek to foster a sound reputation.

The facts of the SIB affair are simple enough. The bank specialised in offering high interest rates to attract deposits with the additional advantages of the Isle of Man's low tax rate. It lent the money to a limited number of favoured, high-risk borrowers who were offered little or no security. The inevitable happened: it crashed and only £3m of £44m lent has been recovered. As a result, 3,000 depositors lost £22m.

But what is more scandalous is that those events occurred in 1982. For most of the intervening period, the Isle of Man Government successfully fought to prevent the publication of two investigations into the affair, one by the Bank of England. It claimed that disclosure of the contents of the reports would prejudice whatever legal proceedings arose from the collapse. In a bizarre twist, one of the reports even became the property of the Manx courts where the depositors were suing. Thus the depositors were deprived of access to key evidence for their case, with the threat that revelation of the report's contents would constitute contempt of court.

Show trial

It was only as a result of a change in government in 1988 that the Manx authorities themselves set the legal wheels in motion. They sought the conviction of eight owners, managers or agents of the bank at a show trial on which they were prepared to spend £10m — a considerable sum for an economy with reserves of less than £50m. But the trial collapsed last week when the judge ruled that there had been unacceptable delays in bringing the action — delays for which the Manx Government bears responsibility.

far, reluctantly at times, happily at others, followed the logic of his own constitutional reformism — in the relative freedom of the press, of the Congress, of permission to create other political forces, of the ending of the Communist Party's monopoly.

Imperfect record

The record is not perfect. We have seen the imprisonment of pro-independence activists in Armenia (now almost forgotten), the brutality against peaceful demonstrators in Georgia (still unpunished) and the occupation of Bakin in Azerbaijan (where the political crisis remains festering and unresolved). In the issue of Lithuania we have seen a hard line which, though tardily made explicit and recently subject to some softening, still denies independence and may still provoke a tragedy. When Dr Elena Bonner, wife of the late Andrei Sakharov, addressed the faculty and students of Berkeley in California in March, she told them that perestroika remained a puzzle to her people. "We have not yet had political change, and we still have no conception of what will be constructed to replace the state which used to call itself the state of Developed Socialism."

Her judgment is probably too harsh. Mr Gorbachev has not created a civil society in the Soviet Union. He has not ensured an underpinning of rights which would survive his passing and be taken over by a tyrant. He has increased his own power rather than that of the people. He and his colleagues have trembled before these necessary political tasks, much as they now tremble before the liberalisation of the economy. And for the same reason. The weight of a past in which constitutional democracy only occupied a blink of time is enormous upon them. It absolutely precludes, in other than a series of crablike moves, a move to a state in which rights are guaranteed. The west's concern, and more urgently that of the Soviet people, should be that the crab moves generally forward. So far, it has. If Red Square goes unpunished by more than a presidential suit, it will continue to do so.

At the same time, depositors who used the Government over its supervisory failure which allowed the bank to trade insolvent for the last 16 months of its life — lost their case in the courts. Their defeat came not because they failed to prove negligence but because it was ruled that the Government did not have a duty of care in the first place.

The affair leaves a most unpleasant taste. It has to be said that the Manx Government has taken positive steps to improve the supervision of its banking industry since the SIB collapsed, including the importation of an official from the Bank of England to run it. It is also to the Government's credit that it initiated proceedings after the elections of 1986, and that there are now calls for full publication of the reports.

Cynical view

None the less, the Government bears a heavy responsibility for its earlier encouragement to banks like SIB to establish themselves on the island without providing adequate supervisory resources. Its subsequent failure to act promptly and ensure that the facts of the case were publicly established displayed a cynical view of its political priorities. The fact that it did eventually launch proceedings is small comfort because the case failed through its own delays.

The thoroughly unsatisfactory outcome of the legal proceedings places a strong moral obligation on the Government to offer some form of material redress to the depositors. There is a precedent for such a move in the UK Government's own offer of compensation to the victims of the Barlow Clowes collapse last year. Maybe many of the depositors were seeking to evade UK tax. But they should be compensated if they are willing to identify themselves.

More generally, the case should cause investors to consider carefully the wisdom of investing in unfamiliar jurisdictions. For governments, it reinforces the case for prompt and full public disclosure of the facts behind such scandals, a lesson which the UK Government has only belatedly learnt following the Harrod's affair.

The UK Community Charge (Poll Tax) has all the classic ingredients of a tax reform fiasco. There are far more losers than winners both on a crude and on a more sophisticated comparison. There are also some highly publicised outlier cases where the losses are particularly large.

An investigation by the Institute for Fiscal Studies (Local Government Finance: The 1989 Reforms, IFS 89) finds that the typical increase in local tax compared with the 1989-90 rates bill is between £50 and £150 per annum. The IFS has not tried to say what rates would have been without the change. But it has made a detailed comparison with 1989-90 rate levels, upgraded by the official inflation allowance for last year of 7.7 per cent.

On that basis 37 per cent of households have had negligible changes in their local tax bills. Some 14 per cent are net gainers and 49 per cent are net losers. The average change for a household with net income of less than £400 per week is a loss of £3.50. Households with income above £500 gain on average over £24.

After the local election results the Poll Tax will produce more headlines on Black Friday May 11, when — by adding a good 1 per cent to the Retail Price Index — the headline inflation rate for April, to be published that day, above 10 per cent. To be fair, that particular idiosyncrasy should be blamed on the Retail Prices Advisory Committee which has done more damage to the British economy than squadrons of enemy bombers. The Poll Tax is a direct tax and has no more claim to be in a price index, however broadly defined, than the Basic Rate of Income Tax. Still further damage will be done by the new Statistical Office, as is to be feared, incorporates the Poll Tax effect in its index of underlying inflation.

At the present stage of the economic cycle we need the Poll Tax to be a hole in the head. As it is, there are enough influences tending to exaggerate the underlying rate of inflation. The danger — highlighted by the CBI Survey — is that either current fiscal or monetary policy will become self-fulfilling through their knock-on effect on wages; or there will have to be a sharp recession to prevent this happening.

The more highbrow criticism is not just of the Poll Tax itself, but of the abolition of domestic rates. For all their imperfections they were the last vestiges of a tax on the income in kind from domestic property ownership. Their removal will increase the demand for houses and for business premises as soon as the economy recovers and the interest rate squeeze begins to ease. The result will be either to increase the long term rate of inflation or to increase the interest rate and unemployment cost of preventing this occurring.

Estimates of the effect on domestic property values vary in degree, but not in direction. The point is that any distortion in the market for housing is relative to other forms of investment is the last thing required in a land-hungry country with severe restrictions on development. This is quite apart from making the control of inflation more difficult.

Treasury in Peking

From one of the highest vantage points in Asia at the top of Peking's new 72-storey Bank of China building in Hong Kong, Sir Peter Middleton, the British Treasury's top mandarin, was able yesterday to dwell on two government preoccupations.

On the horizon there was the mainland of China, which will take over Hong Kong in 1997. Squatting just beneath him was the aggressively functional headquarters of the Hongkong Bank, whose possible marriage with the UK's Midland is likely soon to be back in the headlines — on or off.

In one of his jovial moods, Middleton was unwilling to admit, when we caught him at the residence of Sir David Wilson, the Governor, that any such issues were behind his trip to Hong Kong and, tomorrow, to Peking.

"I come every couple of years, just to look around," he said, and laughed off the suggestion that he was probably the first top British official, apart from a rather special mission by Sir Percy Cradock of the Prime Minister's office, to visit the Chinese capital since the events in Tiananmen Square last June.

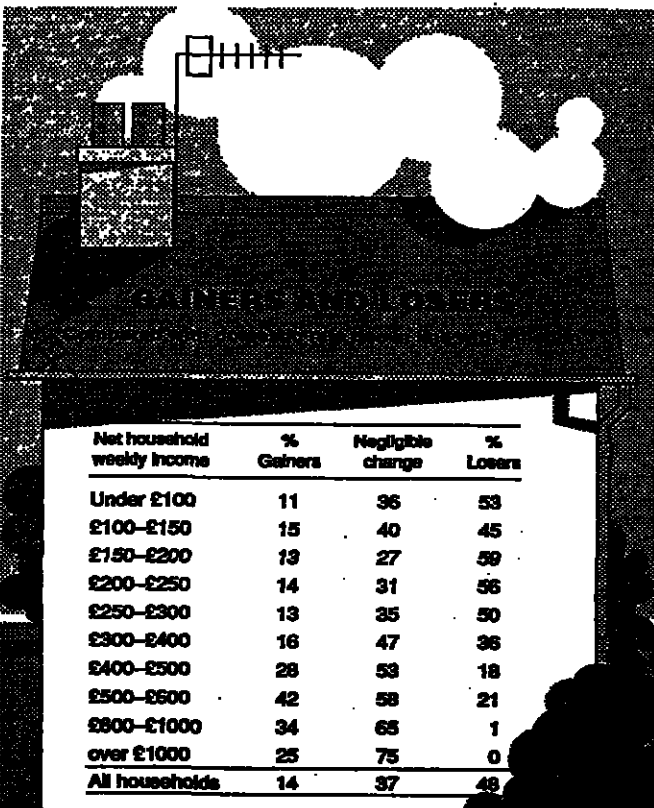
Unusually, for a British official, Middleton survived yesterday's meeting with Chinese officials without being harangued about either Hong Kong's alleged subversive misdeeds or the British passport package. "They were quite bullish about Hong Kong and talked about how well the place is run," he said of his Bank of China hosts.

Next week in Peking, Middleton will be visiting the Finance Ministry and talking to top government personnel chiefs. "How to run a bureaucracy is always a hot subject when I'm there and I shall probably spend more time on that than on finance," he said. "They have been reforming their civil

ECONOMIC VIEWPOINT

Blues' Poll Tax blues

By Samuel Brittan



service and we'll probably talk about some of the British ideas for organising executive branches of government."

Then it is off to Xian for a couple of days looking at the Qin dynasty terracotta soldier relics. Obviously all quiet on the home front.

Cure at last
Hiccups are on the way to being cured, according to Drug and Therapeutics Bulletin, published by the Consumers' Association.

The Bulletin reports that two medicines, both used for years for other medical problems, show distinct promise in the hiccup field. One man who had suffered from persistent hiccupping for 16 years was cured after taking baclofen — a drug for treating muscular spasms. It is made by Ciba-Geigy of Switzerland. Nifedipine, a heart formulation made by West Germany's Bayer, showed similar results when given three times daily to a group of patients at an unnamed military hospital.

Runs in the sun
At Farnham on Monday Asif Din demolished the Cambridge University bowling by hitting 100 not out in 39 minutes. It must be something to do with the sun, for so far this season there have been runs all over the place.

A late Easter, pitches made for batting, low-seamed balls and radiant weather have produced an abundance of high scores. They have not been confined to the one day matches and are as plentiful in the four-day county games. Consistently bad though Yorkshire's cricket has been in recent years, it is not often that the team has faced a score on the scale of Northampton's 498 for 3 declared. That was

and keep out of the pockets of the people as little as possible over and above what is rendered into the public treasury of the state.

Judged by Smith's first maxim, ability to pay, the Thatcher Poll Tax falls down even though Smith was advocating progressive taxation with the shocks brought about by increases in top salaries or MPs' pay, which seem so large because they are deferred for so many years.

The more fundamental problem is that the local authorities spending about four times as much as they raise directly. They will only become "responsible" if the typical authority raises most of its own revenue and central government support is reduced to the poor ones. Such a reform can be implemented in two opposite ways. A new source of funds could be found for local authorities — say a local income tax in addition to domestic property tax, which would be offset by reductions in national tax. Alternatively local government would become more self-sufficient if some very large items of expenditure, such as education, were made a central government responsibility.

Neither move has been attempted and, after the Poll Tax fiasco, any government will think many times before attempting anything radical. The main surety is that prime ministerial instincts are no substitute for genuine analysis and may muddy the pitch for real reform.

together with the proceeds of all taxes which contribute to financing local authorities. Very late in the day such an estimate has been supplied by the chairman of the Conservative Trade Committee, Mr Michael Gyles, in yesterday's Daily Mail. He says that a company chairman on £200,000 per annum contributes £20,672 towards local services, while a "gasman" on £12,000 contributes £267.

The comparison does not quite work even on its own terms. For the chairman earns 25 times as much as the gasman, while his imputed local tax is only 21.4 times as high. Much more important: Mr Gyles does not tell us about

the relative change in the position of the two men before and after the switch from rates. The relief which the Prime Minister keeps on mentioning offset some of the regressive effect of the switch, but are not even intended to offset the lot.

As for Adam Smith's second maxim about the time, manner and quantity, all being clear, this can only occasion a horse laugh. We might just grant the tax a pass under the third maxim, payment at a convenient time.

On the fourth maxim of efficiency or minimum cost of collection, the Poll Tax does not even start to compete. The IFS study shows that the cost of levying the Community Charge is twice that of levying rates. Most authorities received returns from a high proportion of inhabitants. So the collection costs are inherent in the tax itself, which is one on a large number of movable individuals instead of a smaller number of immovable properties.

Smith himself preferred to talk about capitation taxes. For most so-called Poll Taxes in his day were incorrectly named. He had in mind, for instance, a British tax of a guinea a head levied on every man servant. He mentions Poll Taxes under William III, which were levied according to rank. A gentleman paid more than shopkeepers, barons more than gentlemen and dukes more than barons. For pure Poll Taxes he would have had to go back to King Richard I's measure of 1180 which provoked Wat Tyler's Peasants' Revolt.

The elementary (and characteristically unfunny) error was not to realise that a change can be for the worse, and that it was possible to devise a tax more unpopular than domestic rates.

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BOOK REVIEW

Europe's new battleground

Describing what is going on in the European Community these days would be a complex enough task even without the turmoil in eastern Europe.

This book by two experienced writers, respectively of the Economist and the Financial Times, succeeds remarkably well in describing the 1992 programme and how it will affect businesses and individuals, and in throwing light on the rest of the Community's agenda. It is also sufficiently up-to-date to recognise some of the implications for the Community (and for the EFTA countries) of what is happening in eastern Europe.

The European Commission has just reminded us that there are now fewer than 1,000 days to go before the end of 1992, the target date for achieving the Single Market. Completing the legislative programme on time will require one decision a week from now on.

Whether or not that is accomplished, the movement is inexorable. It will not be deflected by vested interests, although they will have an influence on the small print.

It will not be deflected by the need to rethink the architecture of Europe, though the process of German reunification in particular may have an effect at the edges. Nor will it be perfect, since implementation of the programme at national level will be very uneven. The tourist may not see much difference at the frontier, and the impact on trade will depend as much on local taste and custom as on the extent to which legislative barriers come down. The book contains a diagram plotting "Euro-homogeneity" against "national distinctiveness." You are more likely to go to your local British supplier if you want funeral services and to shop around Europe if you want industrial feedstock.

The ramifications of the 1992 programme are well covered. The spur which it has given to European competition policy and to the stricter control of government assistance to industry; the effects on the common agricultural policy and the implications for the current Gatt round. Having examined the charge that the EC is engaged in creating a "Fortress Europe," the authors conclude: "On balance, it is still fair to say that Europe is building a more open internal market without becoming more protectionist to the world outside." This conclusion will surprise many in the US but it is right.

Their verdict on 1992? Likely to succeed but only with a degree of mutual trust and influence between EC states that will mean they are "half-way to political union."

The authors are at their most interesting when they examine the interplay of economics and politics, always a potent blend but the very life-

EUROPE: RELAUNCHED: TRUTHS AND ILLUSIONS ON THE WAY TO 1992

By Nicholas Colchester and David Buchan
Economist Books and Hutchinson £15.95

blood of the EC. Mrs Margaret Thatcher's support for the Single European Act sprang not from federal conviction but from the belief that it would mean Europe-wide de-regulation. This coincided with the mood of the 1980s but, as the authors point out, it is ironic that this liberal consensus "served to deepen the EC's supra-nationalism, irrevocably." With the leftward shift in Europe it is now the "social dimension" which has become the "battleground of Euro-ideology" and left the UK in uncomfortable isolation.

Nowhere is the interplay of politics and economics more fascinating than in the battle of EMU. One of the book's most topical chapters asks the basic questions about EMU which the Delors Committee has asked, on some of the most disputed ones (such as whether it will make the poor poorer), no answers are given.

On EMU itself, the authors are cautious about the likely outcome, pointing out the differences of view not just with Britain but between the West Germans, the French and the Italians. But on Britain's likely response to attempts to boost the powers of the European Commission, the authors are quite clear: "Britain will not be seduced this time as the lure of the great market seduced it" in 1968.

Increased democratic accountability, the authors argue, should come not through greater powers for the European Parliament but through making the Council of Ministers more responsive to national parliaments. There are good arguments on both sides of the debate, and the negotiation about changes to Community institutions will doubtless be extremely difficult. But the worry is that Britain may once again find itself left behind in Europe.

A word from one or two annoying repetitions (we are told three times that the biggest mergers have been in defence-oriented companies), the seems in the writing do not show. The style is pleasing and the book bristles with many a bow not. This book should be read soon, and not just because the events it describes so lucidly are moving so fast.

Michael Franklin

The author is chairman of the West European Programme at the Royal Institute of International Affairs.

OBSERVER

service and we'll probably talk about some of the British ideas for organising executive branches of government."

Cure at last
Hiccups are on the way to being cured, according to Drug and Therapeutics Bulletin, published by the Consumers' Association.

The Bulletin reports that two medicines, both used for years for other medical problems, show distinct promise in the hiccup field. One man who had suffered from persistent hiccupping for 16 years was cured after taking baclofen — a drug for treating muscular spasms. It is made by Ciba-Geigy of Switzerland. Nifedipine, a heart formulation made by West Germany's Bayer, showed similar results when given three times daily to a group of patients at an unnamed military hospital.

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"I'm voting Tory to keep alive the two party system."

In the bright sun at Headingly in Yorkshire's opening championship match, Lamb (235) and Fordham (206 not out) are both sun-lovers. Lamb flourishes in the West Indies and Fordham, another product of Durham University's young cricketers' nursery, has taken to spending his winters in Australia. A lot of other people have already hit centuries.

But perhaps we should not make too much of the sun-runs link yet. David Gower likes the sun as much as anyone, but his best Test summer in England (average 61.55) was in 1985, which was wet and nasty. In the same year Ian Botham achieved his record of 80 sixes.

There is also the matter of favourite places, such as Taunton. That was where Graeme Hick hit his 405 for Worcester-shire in 1988, overshadowing even Viv Richards' 322 against Warwickshire in 1985 and second only to the 424 which McLaren scored against Lancashire at Taunton one hundred years before.

Still, we have sun, we have Taunton and we have a bit

more confidence now. This could be a record summer.

Self-employed

Bernard Weatherill, the Speaker of the Commons, made it clear yesterday that he does not intend to get involved in any controversy over "locking" the Parliamentary salaries of MPs who refuse to pay the poll tax or community charge.

For income tax purposes, MPs are in the "self-employed" category. Thus local authorities will be unable to ask the employer to deduct unpaid poll tax at source.

MPs who refuse to pay the poll tax will be getting letters from their bank managers, not from the Speaker.

Twinning

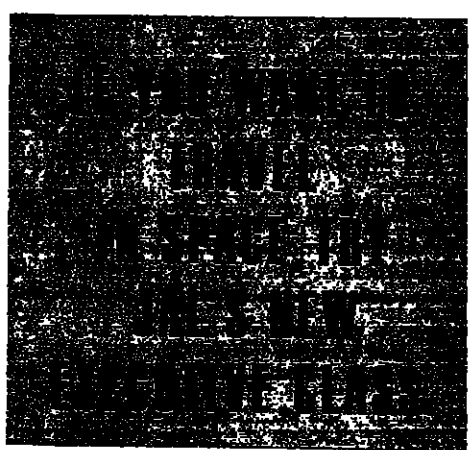
A friend who used to work in the Foreign Office has come up with a new idea for furthering east-west co-operation. He says that the main countries in western Europe should each take a country in eastern Europe and sponsor it, or, if you like, twin with it.

West Germany has already taken East Germany. Britain might take Poland. France could have Czechoslovakia, Italy might take Hungary and Spain could look after Romania. There might not be too much competition to twin with Bulgaria and there could be some argument between Britain and France about who has the closer links to Poland. But that is the general drift. The sponsoring country would promote development.

When you think about it, it is not such a wild idea.

Always a word

From a staff magazine: "The so-called conciliation was terrible. All his jokes were genuine and he seemed to be suffering from laryngitis. His performance was indescribable. "Horse chestnuts", perhaps?



Only JAL have introduced a seat that is a breakthrough in design. To give you more room to relax, it is wider than before with greater leg room. And there are now only seven seats in a row giving you more space to be comfortable. The new Executive Class is available on non-stop flights.

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The French are a perverse and ungrateful people, President François Mitterrand has reason to know. After a disastrous election in 1981-83, he has sagely presided over a liberal but rigorous economic recovery programme, which has inexorably produced, year in and year out, a steady turn-around in the French economy. It was not surprising that he won a crushing victory in 1988 for a second term in the Elysée, nor that he and his Prime Minister, Mr Michel Rocard, continued to enjoy unprecedented buoyancy in the opinion polls for almost two years after those elections.

But now, when the full extent of the French economic achievement is just beginning to win the accolade of public recognition from the outside world, domestic public support for the President has abruptly started to sag, with the steepest drop in his poll ratings for four years.

Just why, is a matter of contradictory speculation. Some suggest that the French are dissatisfied with the President for spending too much time on international affairs, at the expense of sensitive domestic issues like immigration and racism. Others imply on the contrary that he is being censured for too partisan an interference in the affairs of the Socialist Party, when he should be above party matters.

Some say the French are indignant over the recent political amnesty law, which just "happened" to protect many local party officials, mostly Socialists, from prosecution for corruption offences. The French economy, by contrast, is a success story about which there is little ambiguity. It has recently received an enthusiastic endorsement from that doyen of economic authorities, the Paris-based Organisation for Economic Co-operation and Development.

The OECD praises the Government's anti-inflation strategy, which it describes as one of "competitive disinflation," and points out that France has repeatedly outperformed the expectations of outside forecasters. Indeed, the OECD's own, in terms of buoyant growth rates, declining inflation, and rapid industrial investment. Unemployment remains a significant problem, but the trade deficit is really quite small in relation to the size of the economy. The best future economic strategy, it says, is a continuation of the present one, based on a strong franc within the European Monetary System.

The determination of Mr

Though the French economy is buoyant, much of the improvement has been made on the backs of wage earners. Ian Davidson reports

Franc dur, moeurs douces

Pierre Bérégovoy, the Finance Minister, to stick relentlessly to a virtually fixed parity with the D-Mark, has taken years to gain public credibility. It now appears to have paid off.

Not merely has the Government brought the French inflation rate steadily down, closer and closer to that of West Germany. More fundamentally, it has erased the old stigma, justified throughout the Fourth Republic and intermittently during the Fifth, that France's natural instinct is for competitive devaluation and the easy indulgence of gentle inflation. Instead, it has established a new assumption, that France has now acquired the right to be regarded as a hard currency country.

The temporary stresses attendant on the prospective unification of the two Germanys are casting a new light on the French achievement. French officials glow with satisfaction when they point out that, because of the imposed discipline in West Germany, French inflation may be slightly below the German rate this year. And Mr Bérégovoy has taken national pride to the brink of hubris, when arguing that French interest rates may not need to be cut in circumstances to be completely tied to German interest rates.

For investors, too, the situation looks rosy, largely because France has been spared under the auspices of the Socialists in the direction of financial liberalism and deregulation. The stock market is extremely

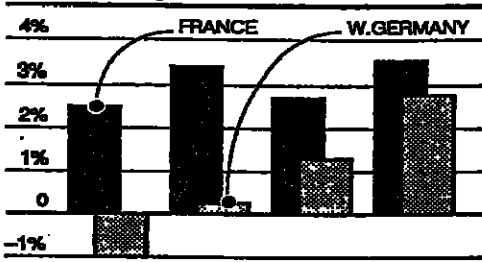
France has now acquired the right to be considered a hard currency country

buoyant, with corporate profits rising by about 30 per cent last year, and the expectation of a similar increase this year. Strong foreign investor interest is likely to push the stock market still higher, while important French companies are becoming increasingly active players in the international acquisition market. French voters and politicians may still harbour a residual nostalgia for Colbertism and state intervention, but the strategy of competitive disinflation and the hard franc has ruled it out

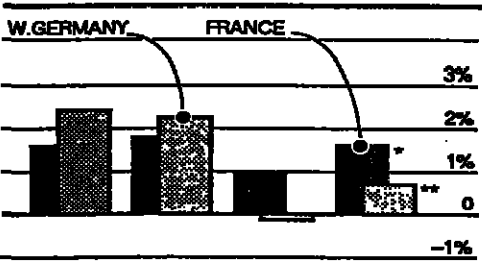
Comparisons of the trend of tax & social insurance contributions

as a percent of GDP	1970	1975	1980	1985	1988
France	35.1	36.9	41.7	44.5	44.3
W.Germany	32.9	35.7	38.0	38.0	37.4
Canada	31.3	32.4	31.6	32.9	33.6
US	29.2	29.0	29.5	29.2	30.0
Italy	26.1	26.2	30.2	34.4	37.1
Japan	19.7	20.9	25.5	28.0	30.2
UK	37.0	36.0	35.3	37.8	37.7
EC (unweighted average)	30.8	33.4	36.4	39.4	40.6

Consumer prices



Unit labour costs



Source: OECD estimates

* Projection ** First Steps

as a practical option.

But how solid are the foundations of this transformation from state intervention to an increasingly liberal market economy? What about unemployment, which seems to be stuck at around 2.5m? What about the heavy burden of public expenditure, which is significantly above that of some of France's key competitors like West Germany? What about the costs of the social security system, which threaten to run out of control? And what about the trade deficit which, despite recent improvement, is a worrying question mark over French competitiveness?

Such questions are inevitably answered in contradictory ways. Jean-Paul Fitoussi, an academic who heads of the economic institute Observatoire Français des Conjonctures Economiques (OFCE), is optimistic about the French economic outlook for two reasons: the domestic situation is fundamentally healthy and the international constellation is ideally favourable for rapid economic growth in Europe.

The budget deficit is now small in relation to GDP, while the public debt is one of the

smallest in the industrialised world. Investment in the productive sector has grown a bit faster than in some other countries in the past three years, and so is more modern, and the restoration of large profit margins in the corporate sector gives companies room for manoeuvre to meet the competition and increasing market share. The reverse side of the 10-year economic recovery since the 1970 oil shock, is that the cost has been entirely borne by wage-earners, either in the form of mass unemployment, or through a substantial reduction in the wage share of national income. As a result, there is a widespread sense that income distribution has become inequitable. But since growth prospects are now optimistic, the time can start to be rectified. Unemployment will not fall unless growth is faster than 3 per cent; the Government is now forecasting growth of 3.2 per cent this year, but Mr Fitoussi believes it will be more like 3.7 to 3.8 per cent, as in the past two years.

Mr Yves Lyon-Caen, who holds a senior post in the Prime Minister's cabinet, is — interestingly — more cautious

than Mr Fitoussi. The recent trend is very encouraging, in inflation, investment and even in foreign trade; but there is a much less satisfactory historic backlog which has still not been worked off. Unemployment is still too high, the quality of productive capital, both hardware and software, is inadequate compared with Germany, and the foreign trade

It is a matter of common observation that French manners have softened

balance remains fragile: the improvement in the first quarter is too sharp to be reliable.

Looking ahead, he sees two major problems and a secondary worry. The worry is the recent decline in rate of self-financing of industrial investment: the Government regards this as a key indicator of industry's resilience under pressure. The problems are the excessive weight of public spending, despite the restraint of central government, and the difficulties of controlling and financing rising retirement and

health costs. The difficulty of both these problems will be critically affected by the rate of economic growth.

Christian Saint-Etienne — an economist at the Crédit Lyonnais bank — offers a third, contrasting opinion. He acknowledges the substantial improvement in the shape of the private sector, though he remains anxious at the backlog of past errors, and he believes that nothing significant has yet been done to tackle the serious problems of public finance and education.

The restoration of corporate profits still has to overcome the accumulated handicap of French companies' indebtedness; the improvement in the foreign trade balance is an uphill struggle to recover market shares lost in the early 1980s; and the strategy of foreign takeovers may be daring, or it may turn out to be dangerous. In any case, the private sector recovery is recent and therefore fragile; it needs to continue for several more years to be robust.

By contrast, the public sector still has grave problems. Public spending is significantly higher than in Germany, for example, largely because of the greater weight of social security transfers; but the competitive effect of the European Community's Single Market will be to force the French state to reduce a wide range of taxes, on spending (VAT), on savings, on companies, and even on personal incomes, where the overall tax wedge is higher than in other industrialised countries.

In the long run, Mr Saint-Etienne believes, those countries will dominate which have the best tax and education systems; which means Germany and Japan. In France, one third of the young leave school without qualifications; spending on higher education is half that in Britain or the US; and far fewer engineers are trained than in Germany.

Which brings us back to President Mitterrand's popularity rating. It is a matter of common observation that French manners have softened with the years. Some people still find Parisians hard and aggressive; they should have been here 25 years ago.

Perhaps the improvement in French urbanity is due to straight prosperity, perhaps to the recovery of national pride. But if France's new-found standing as an economic strong man in Europe, has been bought at the expense of the working class and at the expense of President Mitterrand's socialist preferences, then sooner or later there may be a political bill to be paid.

LOMBARD

Hurdles for Emu to jump

By Martin Wolf

"BECAUSE of the risks of systemic instability in the transition, it is to be recommended that the Community prepare for a relatively rapid passage from the beginning of Stage 1 to the definitive EMU, including a single currency." This was the recommendation on economic and monetary union put forward by the Commission and discussed by finance ministers in March.

There is talk of agreement on a new treaty in 1991 and ratification by the end of 1992. Then, after dallying briefly in the second stage proposed by the committee on Emu chaired by Mr Jacques Delors, the EC is to move swiftly into the third stage, with a single currency, to be issued by EuroFed, the EC's new central bank.

Assume that there is, indeed, to be a single currency. It follows that at some date — not too far in the future, according to the commission — citizens of the EC will be forced to exchange their national currencies for its Euro-equivalent. (Note that rebasing the national currencies and calling them Euro-pounds, when in the UK, and Euro-franc, when in France, would not alter the economics. The new currencies would be quite different from the old ones, even if they were to retain the same names.)

Then there are pensions. In the UK many company pension schemes are contractually obliged to uprate their pensions by no more than 3 per cent a year. This makes life easier for the schemes, since inflation has been higher than the threshold. If their schemes do well, pensions can then be uprated *ex gratia*.

Suppose that sterling turns into the Euro. The Germans would certainly be very upset if Euro inflation were above 3 per cent a year. The obligation on pension schemes would then be more onerous, since British companies would be contractually obliged not to cheat their pensioners. What waiting and gnashing of teeth there would then be in the boardrooms!

These problems reflect the fact that the move to the Euro will be a large disinflationary shock to some Europeans and an inflationary shock to others. It will be interesting to see what happens when Germans realise that they are to lose the D-Mark and still more of the value of their bonds than unfication has lost them already.

per cent in West Germany to 13.75 per cent for Spain (with Greece and Portugal left aside). France is on 10.38 per cent, Italy on 11.54 per cent and the UK on 12.25 per cent.

If it were known that debt service on existing bonds were to be paid in future in Euro at the exchange rates at which the currency conversion itself would take place (which seems much the most likely solution) windfall gains would accrue to owners of bonds denominated in soft-currencies. Since Euro interest rates are almost certainly going to be higher than those in the hard currencies, owners of bonds denominated in D-Marks and Dutch florins would suffer corresponding losses.

Taxpayers in soft-currency countries would lose; those in hard-currency countries would gain. One might suppose that taxpayers can look after themselves. But what of corporations? A corporation with long term liabilities in a soft currency may find the real burden of debt service considerably — perhaps ruinously — greater than it had bargained for.

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LETTERS

The worker and Polish privatisation

From Mr Robert Oakeshott.

Sir, If what I was hearing in Poland last week has any validity, Robert Rice's important article ("Union's fears growing drafting of privatisation rules in Poland," April 30) may be at fault — not for what it says but for what it leaves out.

He presents a stark policy conflict between the Government's privatisation proposals and those "trade unionist MPs" pressing for these to be amended to provide for greater worker participation in the ownership and management of state enterprise after privatisation.

It is true that a full-blooded set of privatisation counter-proposals has been drawn up and they do have the thrust towards greater worker participation which Robert Rice emphasises. But I gathered last week in Warsaw that only a minority in the lower house of the Polish Parliament supports the counter-proposals.

In particular, or so I learnt, only a small minority of those MPs who are linked to the

Influential Self-Management Activists' Association (SMAA), are supporting them. The majority, with the backing of Dr Pawel Ruskowski, the association's general secretary outside the Parliament, have broadly accepted the Government's proposals and are seeking, in discussion with ministers, no more than some amendments of detail.

Since it is Dr Ruskowski and the SMAA-linked MPs who have made the running in favour of employee ownership over the last six months, his views, and those of a majority of the MPs who have links with him, may well prove decisive.

However, I should declare an interest. We, Job Ownership Ltd, entered into an agreement with the SMAA last year about a joint programme of work. Given some amendments of detail, we share Dr Ruskowski's view that his objectives can be achieved within the framework of the government privatisation proposals.

A case for giving employee ownership a fair wind in any

privatisation exercise can be seen in a table on pre-and post-privatisation profit performance in the SMAA's briefing paper, Privatisation in the UK, published in May last year.

It shows the profit increase of the former National Freight Consortium after its privatisation to have been far superior to that of any other privatised business.

As I am sure your readers know, NFC at privatisation was the subject of an employee buy-out. More than 80 per cent of its shares had been bought by employees. Financial institutions which were lucky enough to get their hands on a part of the remaining equity made a splendid killing.

It is not clear that employee ownership is doomed to fail in Poland — and indeed elsewhere in eastern Europe — or that NFC's success will turn out, historically, to be one of a kind.

Robert Oakeshott, Executive Director, Job Ownership Ltd, 9 Poland St, W1

Treating health markets in isolation

From Mr John Smith.

Sir, Why do economists look at health care (hospital) markets differently than other markets, even when commenting on the value of a market approach? ("Casualty of the market," April 27).

Could it not be that an unrestricted market like the US involves consuming health services at even higher levels? Who says 11.2 per cent of GDP is too much? Not the US market apparently.

And what would the UK market spend on health care if unrestricted? More than 6 per cent, you can bet!

John Smith, Booz Allen & Hamilton International (UK) Ltd, 100 Piccadilly, W1

'Bolshy' view of Israeli farms 'misleading'

From Mr Zvi Alm.

Sir, Mr Martin Lever (Letters, April 26) only superficially deals with your previous article on Israel's "bolshy" agricultural system.

The negative government controls described in your article are misleading and misleading, specifically since 70 per cent of agricultural production in Israel is in the hands of the private sector.

Indeed, there are strong marketing boards, but their prime role with the market-pricing system is not to fix prices but to establish a safety net with minimum guaranteed prices so as to prevent collapse. In general, Israel's marketing boards are hardly different from the equivalent boards in Britain.

From the point of view of subsidies, levels of less than 15 per cent in Israel are definitely better than the 60-70 per cent levels operating in the Common Market.

On these matters alone, Israel's agricultural sector is no more "bolshy" than the common agricultural policy of the Commission and the equivalent policies here in the UK.

Zvi Alm, Counsellor for agricultural affairs, Embassy of Israel, 2 Palace Green, W8

Nacro's special funding needs

From Mr Vivien Stern.

Sir, Mr Michael Howard (Letters, April 26) attributes the cut in his department's budget for youth training to a number of factors including "increasing contributions made by employers."

In the case of the National Association for the Care and Resettlement of Offenders' schemes, however, the reduction in funding per place of between 10 per cent and 30 per cent cannot be justified. It is unrealistic to expect employers to make up the shortfall on specialist training programmes for difficult young people.

Mr Howard refers to Nacro's two-year "surplus of some £5m." He may have in mind the financial provision — 6 per cent of two years' turnover on our schemes — which we have made to cover our extensive liabilities if we have to close employment or youth training schemes dependent on one-year government funding contracts which carry one month's notice of termination.

Vivien Stern, Director, Nacro, 169 Chapham Rd, SW9

Establishing a hold on Thatcher

From Mr Rory Montgomery.

Sir, If being a part of the British Establishment means, *inter alia*, the jettisoning of Margaret Thatcher as leader of the Conservative Party (Observer, April 30), I am pleased to re-define my establishment status as no more than semi-detached.

The logic behind the view that Margaret Thatcher is a liability to the party defies any sound analysis of current economic problems. It is as if the UK's problems could be solved by a change in the current leadership or style of government.

The fact remains that the UK has enjoyed a non-stop party from 1982, and now the hangover has set in with widespread pain as the natural effect.

What a new Tory party leader could do to tackle these problems that the present leader is not already doing remains a mystery to me.

The depressing economic facts borne out of the classic UK stop-go pattern of growth would remain the same: inflation rising to 10 per cent by the autumn, money supply growth at 18 per cent and the trade deficit expected to be at least

£15 billion this year. What alternative to high interest rates could work and, if none, why change the leader merely to maintain current policies?

As a country we have never had the searing experience of hyper-inflation endured by other countries such as pre-war Germany, so we remain infuriatingly complacent about attacking its root causes.

We pay ourselves too much at all levels and we spend as much as we are able to borrow, as individuals, displaying little notion of proper financial rectitude.

If one accepts therefore (as one must) that the current leadership is correctly tackling these problems correctly in a determined manner what possible benefit is to be gained from removing Mrs Thatcher?

The only certainty about removing Mrs Thatcher would be to increase the risk that tight monetary control would either be abandoned or, at least, carried out with diminished vigour.

A change of face would benefit only the socialist cause — perhaps the next fashion of the British Establishment.

Rory Montgomery, 8 Finbury Ave, EC2

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FINANCIAL TIMES COMPANIES & MARKETS

Thursday May 3 1990

Not just Number 1
in Plumbing Supply

WOLSELEY

INSIDE Motor industry: results and forecasts



BMW was optimistic yesterday that it would stave off any large-scale industrial action through 1990 despite one-day stoppages this week over higher pay and shorter hours. Meanwhile, its West German competitor Mercedes-Benz, said first-quarter earnings in its truck division rose because of strong growth in heavy trucks, but DAF, the Dutch truck maker, warned of a first-half loss of more than £120m (£10.58m). Pages 20-21

Downward trend in chemicals
Hoechst, the big West German chemicals concern, has suffered an 8.5 per cent fall in first-quarter group pre-tax profits to DM920m (\$548m) though the group still expects to keep profits steady for the year as a whole. At the Dutch chemicals group, DSM, first-quarter net profits fell 18.5 per cent because of reduced margins in core businesses. The result followed a trend set last week by Akzo, the country's other big chemicals company. Page 21

Profits edge up at Royal Bank

The Royal Bank of Scotland reported a small increase in interim profits yesterday - and a large fall in its exposure to highly leveraged companies. Pre-tax, the Edinburgh-based group earned £17.6m (£285m), up from £17.1m in the same period last year. Sir Michael Herries (above), the chairman, said Scotland was faring better than the rest of the UK but trading conditions were likely to remain difficult. Page 25

Oil traders in limbo

Two years ago, a US court gave a preliminary opinion that the market in which UK-produced North Sea Brent crude oil is bought, sold, and delivered - mainly in Europe - was a US futures market. Traders hardly batted an eyelid as they thought the pronouncement too absurd to be upheld. On April 18, however, it was confirmed implying that traders may be in violation of US law, under which off-exchange futures transactions are illegal. Steven Butler looks at a market which is in limbo while UK and US authorities try to sort out the confusion. Page 32

Korean market has record falls

A gradual decline on the South Korean stock market has accelerated alarmingly over the last two weeks with Seoul's composite index setting two records for one-day falls. The crisis stems from a series of economic and social concerns including widespread labour disputes and a 5 per cent rise in the consumer price index in the last four months. Back Page

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Chief price changes yesterday

FRANKFURT (DM)	PARIS (FF)
Deutsche Bank	1254 + 64
Deutsche Bank	453 + 27
Korff	387 + 22
Lehman	4080 + 110
Lehman	527 + 110
Lehman	574 + 22
NEW YORK (USD)	TOKYO (Yen)
American Gas	971 + 100
American Gas	1160 + 120
American Gas	1250 + 120
American Gas	210 + 230
American Gas	1930 + 120
American Gas	700 + 60

LONDON (Pence)

British	255 + 5	Tate & Lyle	275 + 45
British	521 + 5	Unilever	480 + 4
British	140 + 2	Unilever	678 + 14
British	225 + 7	Unilever	124 + 7
British	105 + 8	Unilever	65 + 10
British	120 + 10	Unilever	730 + 40
British	583 + 13	Unilever	688 + 40
British	380 + 8	Unilever	230 + 10
British	600 + 10	Unilever	290 + 7
British	327 + 12	Unilever	1612 + 1
British	438 + 7	Unilever	

American General up for sale

By Roderick Oram in New York

AMERICAN General, the fourth largest publicly-owned US insurer, put itself on the block yesterday saying it hoped to fetch more than \$70m. Analysts on Wall Street thought a European or Japanese insurer might be interested in acquiring the company, given that opportunities are rare to make a purchase of this size in the US insurance market. American General's move came as shareholders voted at the annual meeting on resolutions proposed by Torchmark, a competitor one sixth its size, and designed to put the company into play. American General's board had fought Torchmark's initiative, advising shareholders they would benefit more from sitting tight to

enjoy the rewards of past years' restructuring. Despite claiming victory over Torchmark's directors, the board said it was putting the company up for sale because it "was vulnerable to possible acquisition at a discount price". Torchmark, based in Birmingham, Alabama, had launched a \$50 a share, \$6.50m bid for American General in late March. It withdrew the offer two days later because it said the target's board was not prepared to consider it. It launched instead a proxy fight to get five directors sympathetic to a sale elected to American General's board and it also proposed a resolution calling for the company's sale. Torchmark welcomed yesterday's change of heart by the

Nobel buys UK paint business from Williams

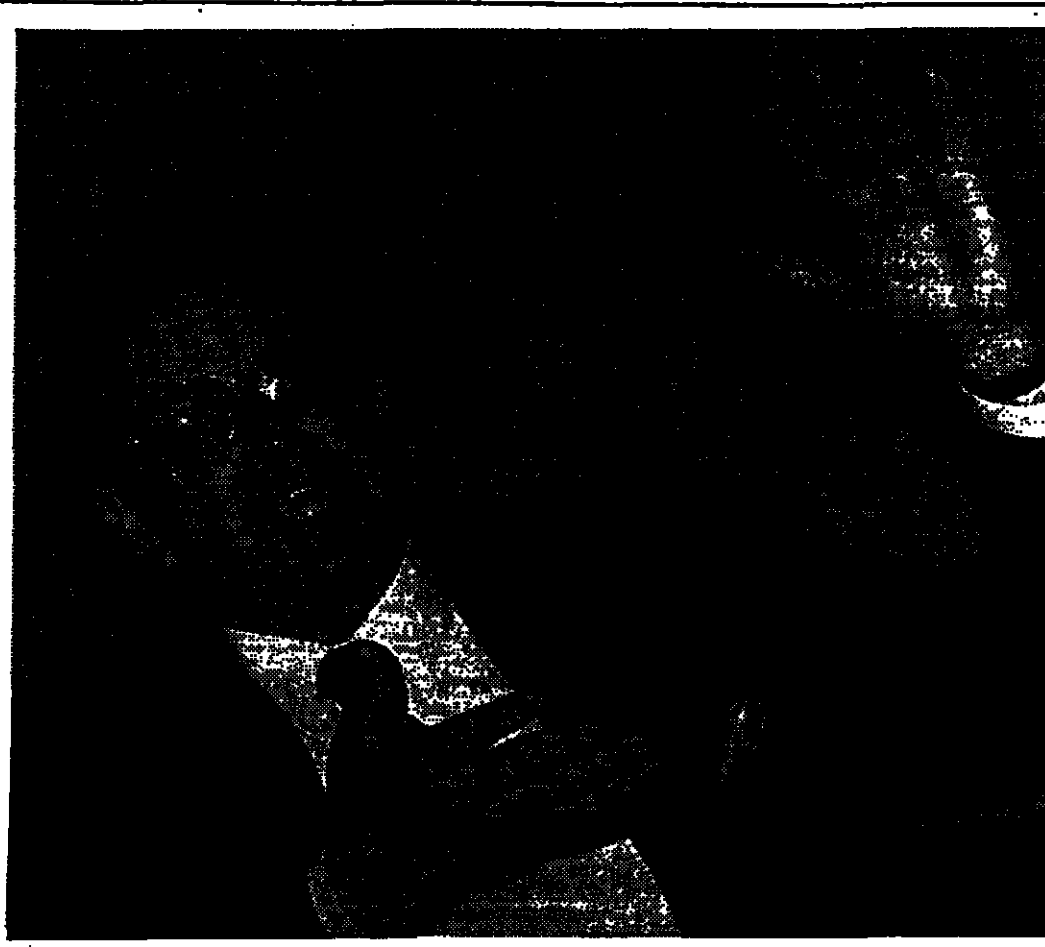
By Ian Hamilton Fazez

WILLIAMS HOLDINGS is selling its Crown Berger paints businesses in the UK and Ireland to Sweden's Nobel Industries for an initial \$206m (\$336m) in cash. Up to \$35m more will be payable if Crown's sales achieve their \$240m budget this year. The deal will propel Casco-Nobel, the Swedish group's paints division, close to the top of the European coatings league table with ICI of Britain and Akzo of the Netherlands - which each sell about 250m litres a year. Crown, which employs 2,500, including 600 at its Lancashire headquarters, is second to ICI in the UK decorative paint market. Crown's 27 per cent share is split 17:10 between its own brand and own-label paints for retailers. Mr Ove Matson, Casco-Nobel's chief executive, said in Stockholm yesterday: "The price is high, but buying one of the true leaders of the industry is worth a premium. It is a well-assessed company with the best paint factories in the UK. We are buying a position in the marketplace." Williams is retaining Crown's profitable North American and Portuguese decorative paint companies, as well as its Cupinal wood preservatives and Polycell adhesives businesses. The initial sum is \$103m more than the book value of Crown's assets, and will enable Williams to reduce borrowings from £126.42m to £23.06m this year. The sale will also reduce the company's dependence on the uncertain UK consumer market from 40 per cent of its business this year to 22 per cent. Williams' share price added 9p yesterday to 260p. Last year Crown made operating profits of £20.9m on sales of £192.6m. Williams bought Crown from Reed International in 1987 and added Berger, Jenson & Nicolson from Hoechst, the West German chemicals group, a year later. This led to a substantial rationalisation of the overcrowded UK market, where Berger was struggling in third place behind ICI and Crown. Its Bristol plant was shut down almost immediately. Berger's Asia-Pacific subsidiaries were disposed of piecemeal. Williams spent a total of \$420m on building its short-lived global paints business. Mr Brian McGowan, the chief executive, said yesterday that the parts it has kept accounted for £150m of this but contributed £40m to last year's profits. Background, page 25

CCF buys stake in UK fund manager

By Nikki Tait in London

CRÉDIT Commercial de France (CCF), the privatised French bank, is acquiring a 25 per cent minority stake in Framlington, the UK fund management company, for £18.75m, with the expectation of taking this to 51 per cent in a year's time. Framlington is owned by Throgmorton Trust, a large investment trust. It is best known for its unit trust business, which accounts for about one-quarter of the £2.4m funds under management. At one stage, CCF had owned a 28.5 per cent stake in Framlington, acquired in the mid-1980s. It wished to sell it in 1988, however, and Throgmorton won control of Framlington after making a hostile £70m offer for the company. Yesterday's deal continues the flow of acquisitions by continental banking groups of UK fund management businesses. CCF says it plans to make Framlington the main focus "for further development of CCF's international fund management business". CCF itself has around £10 billion under management. It said its subsidiary holding the Framlington interest would bring in other European-based partners as minority shareholders. CCF is paying £18.75m in cash for the 25 per cent stake, and will take three board seats in Framlington. Throgmorton and CCF have also entered an option agreement in respect of a further 26 per cent of the fund management business, exercisable in April 1991.



MR GRAEME Seabrook, chief executive of Kwik Save, the limited-line discount food retailer, disappointed analysts yesterday by reporting a 12 per cent rise in interim pre-tax profits. The group turned in a result of £29.6m, when the market had been looking for around £41m. £42m, and Mr Seabrook admitted he had been hoping to report profits of over £40m. Kwik Save's shares slid 9 pence to close 46p lower at 470p, as analysts downgraded estimates for the year to around £28.5m. This would compare to £78.2m for the 12 months to August 30, 1989, and analysts pointed out that Kwik Save has been a poor performer since its takeover by a new finance director. There are fears that the arrival in Britain of Aldi, the West German discount food store, will be significant new competition for the UK group. But Mr Seabrook dismissed Aldi's impact, showing

Advisers cough, and the chairman listens

By Clay Harris, Consumer Industries Editor

MR NEIL SHAW, the Tate & Lyle chairman who has not yet decided whether to bid for Berisford International, his company's rival in the UK sugar market, tried yesterday to give a few hints of his intentions. But not much got past the discreet throat-clearings of his advisers. Tate, Mr Shaw said, would sell everything except British Sugar if it took over Berisford. Fiddlers from the other end of the table prompted Mr Shaw to try to relieve his words, even though they were hardly surprising. There was more to come. "When we get to the Monopolies Commission," Mr Shaw said, the evidence in favour of Tate's emphasis on the broad European, rather than the narrow UK, market for sugar would be overwhelming. When, not if? Yes, said Mr Shaw. Again, murmurs from his minders obliged him to make clear that nothing was being taken for granted. It is not easy to be a chairman, especially one as earnest and vulnerable as Mr Shaw, in the no-man's land of a British bid period. Even when, as in Tate's careful pursuit of Berisford, there is no takeover bid actually on the table. As Tate announced pre-tax profits of £27.5m (£143m) for the half-year to March 31, Mr Shaw was carefully shepherded through his meetings with the press. Foremost among his minders was Mr Michael Perry of SG Warburg, the merchant bank which would answer to the Takeover Panel if Tate said too much. Tate said it continued to investigate the value of Berisford's non-sugar interests, especially the troubled US property investments. But Mr Shaw appeared to be rehearsing for a Monopolies Commission appearance. He said Tate could - and would - reduce UK sugar prices if it was allowed to buy British Sugar. Tate results, Page 28

Johnson Matthey job cuts will lead to 'substantial' charges

By Kenneth Gooding in London

SHARES IN Johnson Matthey, the precious metals refining and marketing group, fell by 9 per cent yesterday. The drop, by 23p to 252p, came after the new management team said that further rationalisation - including the loss of "hundreds" of jobs - will lead to substantial exceptional and extraordinary charges in the 1990-91 financial year. Johnson Matthey has been signalling that a streamlining programme was on the way since last year when Charter Consolidated, which owns 32 per cent of the company, tightened its grip. Charter is part of Mr Harry Oppenheimer's South Africa-based empire. Its tighter control led to the resignation of Mr Eugene Anderson as chief executive of Johnson Matthey; Mr Neil Clark gave up the chairmanship. Despite the advance warning,

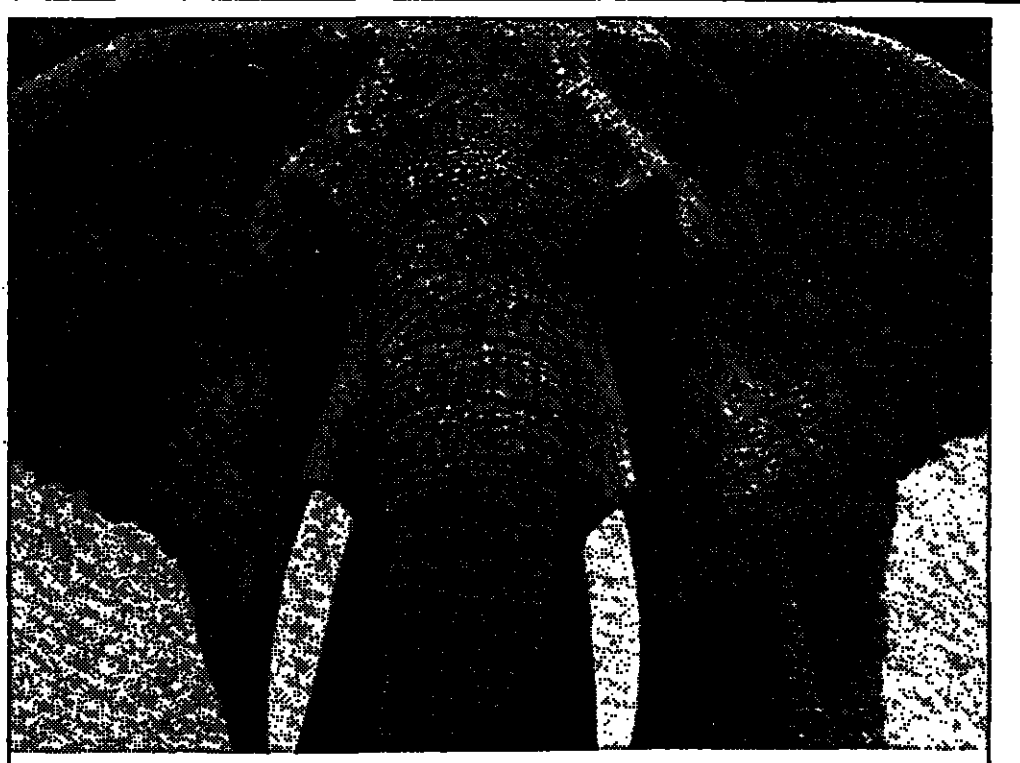
some analysts were taken aback by the indications yesterday of the cost of the programme, which they estimated at about £10m (£10m). There was also disappointment that it would take at least two years for the full benefits to come through to profits. Mr David Davies, the former Hill Samuel chief executive who in December moved from Charter to become Johnson Matthey's chairman, said Johnson Matthey could not give full details of the proposals until the interim results were announced on June 14. He indicated, however, that "hundreds" of jobs would be lost over time. He said: "Basically Johnson Matthey's business is extremely sound and is showing good growth. But over the past couple of years costs have got out of control and out of line with the growth in margins. The company has become a bit flabby and we are coming to grips with that." Targets for rationalisation include head offices in Hatton Garden in London and Valley Forge in the US. Thirty redundancies have already been declared at Hatton Garden to bring the head-count down to just over 100 in the next six months. The precious metals division's UK operations will also be rationalised and, in particular, there will be a "significant contraction" in the scale of operations at the Edinburgh refinery in North London. The group's activities at the materials technology division at Royston, Hertfordshire, which houses about 20 of the company's 77 business units, will also be streamlined.

Maxwell deal with Bell is halted

By Kevin Brown in Sydney

AUSTRALIAN regulatory authorities moved quickly yesterday to prevent Mr Robert Maxwell, the British newspaper publisher, from acquiring a 14.9 per cent stake in the Bell Group, a 74.5 per cent media subsidiary of Bond Corporation Holdings, Mr Alan Bond's troubled master company. Mr Maxwell, publisher of the UK's Mirror Group Newspapers, said early yesterday that he had agreed to buy 48.5m shares in Bell for A\$485.949 (£485.949) from Mr David Aspinall, Bell's managing director. However, completion was delayed for at least 24 hours after the National Companies and Securities Commission (NCSC) obtained an injunction in a Melbourne federal court freezing the purchase until this morning. The NCSC said it wanted time to investigate the circumstances surrounding both the sale to Mr Maxwell and an earlier deal in which Mr Aspinall bought 16.57 per cent of Bell from the State Government Insurance Commission (SGIC) of West Australia last Friday. The commission said it was "reasonably clear" that the acquisition of Bell shares by Mr Aspinall was a breach of Australia's takeover code, which prevents owners of more than 19.9 per cent of shares in a company from acquiring more than an extra 3 per cent without making a full takeover bid. Under the takeover code, the shares acquired by Mr Aspinall are deemed to be controlled by Bond Corporation Holdings because of his position as a director of a subsidiary company. Mr Arthur McGeagh, executive director of the NCSC, said Mr Aspinall had apparently sold the

bulk of his holding to Mr Maxwell in the mistaken belief that "it somehow minimises the damage done." He said the sale "without reference to other parties was probably not the best way the commission could [wish] to see this resolved." This is not the first time Mr Maxwell has sought to enter the Australian newspaper market - he tried unsuccessfully in 1988 to buy The Age, a Melbourne daily regarded as one of the country's best newspapers. Bell's main asset is the highly profitable West Australian daily newspaper, which reported net profits of A\$40m in 1988/89 and has a circulation of more than 250,000. Bell also controls just under 50 per cent of the Daily News in Perth, and has a string of suburban and country newspapers.



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INTERNATIONAL COMPANIES AND FINANCE

Bond deal worries HK regulators

By John Elliott in Hong Kong

HONG KONG'S stock market regulators are trying to find a way of moving in on the proposed sale of the 68 per cent stake in Hong Kong-listed Bond Corporation International (BCIL) held by Mr Alan Bond's ailing Australian business empire.

The potential purchaser of part of the stake is Tomson Pacific, a local company backed by Taiwanese and mainland Chinese money and headed by Mr Stanley Ho, a Macao gambling and entertainment entrepreneur.

The regulators are concerned because Tomson, advised by Standard Chartered Asia, only proposes to buy a 34.5 per cent

stake in BCIL, just below the 35 per cent threshold at which a general offer would be required under Hong Kong's voluntary takeover code. The remaining 33.5 per cent of the Bond stake is to be placed with other investors by ChinTung International, part of the Standard Chartered Group.

This could lead to a change of control in Tomson's favour if, as regulators suspect, it turns out to be close to some of the other investors. Existing minority shareholders in BCIL would also gain nothing from the deal.

However, one week after Bond executives forecast that a deal would be settled within 48

hours, negotiations continued late last night and showed no signs of reaching an early conclusion. Meanwhile, Mr Peter Lucas, head of BCIL, and Mr Bond's public relations director, said that last week he wrongly estimated the funds that the Australian parent could reap from the proposed sale of its stake. He has now trimmed the figure from A\$500m (US\$378m) to A\$400m.

Negotiations are believed to be pitched at a price of around HK\$2.25 a share - yesterday's closing market price was HK\$2.05 after heavy trading, up from HK\$1.90 at the beginning of the week.

The Hongkong and Shanghai

Bank, which is believed to be owed some A\$500m by the Bond empire, is watching the negotiations closely.

Along with the Bond empire, it is in favour of a sale of the stake because this would produce cash faster than a large-scale dividend distribution or a winding up of the company, which cannot take place until the future of a 50 per cent stake in a Rome property development site is decided.

The other 50 per cent has been held for some months by Mr Bond's Australian company. BCIL would like to buy the stake so that it could then try to iron out long planning delays.

NEWS IN BRIEF

Fried. Krupp sees return to profits

FRIED. KRUPP, Germany's oldest steel firm, will return to profit this year after breaking even in 1989 and suffering a large loss in 1988, its chairman Mr Gerhard Cromme said at the Hannover trade fair, Reuters reports.

The company was tackling many of the problem areas that forced it into a DM302m (€120m) loss in 1988. Much of the company's restructuring costs were behind it and this would make a return to profit possible this year, he said.

Ahold, the Dutch retailer, said West German supermarket group Alkan had joined a marketing pact linking a group of European food retailers. The Associated Marketing Services (AMS) was formed last year and is designed to boost members' purchasing power, Reuters reports.

Alkan brings the number of AMS members to 10. AMS is 60 per cent owned by Ahold, the UK's Argyl Group and Groupe Casino of France.

Banque Paribas said consolidated net profit rose 19 per cent in 1989 to FF1.35bn (€245m) from FF1.16bn, helped by a decline in new provisions for loan risks, AP-JN reports.

The bank unit of Compagnie Financière de Paribas noted that its 1989 performance was marked by narrower margins on loan activity following an inversion of the yield curve in France. Capital market operations were also weaker than in previous years, but management grew significantly.

Skanska, the Swedish construction group, said it agreed to acquire Oslo City, one of Norway's biggest shopping and office complexes, from Selmer-Sande for Nkr1.55bn (€237m).

Skanska said the acquisition of Oslo City, a 80,000 sq m project completed in 1988, required the approval of Norwegian authorities.

Georg Fischer, the Swiss engineering company, has set the price for shares being offered as part of a rights issue at SF250 per registered share and SF1,350 per bearer.

BMW expects to avoid lengthy strikes this year

By Andrew Fisher in Frankfurt



Eberhard von Kuenheim: sees another excellent year

WEST GERMANY'S motor and engineering industries stand a good chance of avoiding lengthy strikes this year, despite this week's one-day stoppages over higher pay and shorter hours, Mr Franz Köhne, the personnel director of BMW, the luxury car producer, said yesterday.

"The chances that we can emerge without a strike are big - more than 50 per cent," he said. "The negotiating positions are not so great that there has to be a strike." The last big strike in the sector was in 1984, when plants were shut down for seven weeks.

IG Metall, the engineering trade union, has begun a series of warning strikes this week as part of its campaign for an 8.5 per cent pay rise and a cut in the working week from 37 to 35 hours. BMW's Munich and Dingolfing plants in Bavaria are due to be hit today.

Referring to the uncompromising tone of statements by Mr Franz Steinkühler, the head of IG Metall, Mr Köhne said: "The drama and outspoken remarks are part of the game."

The union leader has said negotiations will fail unless employers offer a firm commitment to the 35-hour week.

Mr Köhne was speaking at the annual press conference of BMW, which - as reported on Tuesday - raised group net profits last year to DM558m (€333m), with turnover up by 8.4 per cent to DM25.5bn.

Group earnings per share rose from DM47 to DM54. Cash flow was 10 per cent higher at DM2.3bn, with group liquidity up 13 per cent to DM4.3bn.

In the first four months of 1990 group turnover increased by 4.2 per cent to DM9.2bn, with production up by 5.5 per cent to 191,750 cars.

Mr Eberhard von Kuenheim, the chief executive, declined to make any forecast for the full year, though he stated that 1990 would be "another excellent automobile year."

Elaborating on his optimism over the outcome of the pay and hours talks, Mr Köhne said German workers were unlikely to strike over shorter hours, especially now that the country faced the challenge of restructuring the East German economy.

Though opposing the 35-hour week as "the wrong way," he said it would be acceptable in 1993 or later under certain conditions.

The main one would be a reduction in the gap between Germany's shorter hours and the rest of the EC.

Good first quarter for Hafslund

By Karen Fossell in Oslo

HAFSLUND NYCOMED, the big Norwegian pharmaceutical and energy concern, has increased first-quarter profits, before extraordinary items, to Nkr283m (€43.3m) from Nkr234m a year earlier.

The improved result was achieved in spite of higher depreciation costs and increased spending on research and development which the company warned would increase for the year as a whole.

Group operating revenues rose to Nkr990m from Nkr754m last year as did royalty income which increased by Nkr6m to Nkr92m.

R&D spending in the quarter rose to Nkr111m from Nkr70m last year. For 1990 as a whole Hafslund forecasts a rise in these costs to about Nkr530m from Nkr290m last year.

The imaging division, which produces the Omnipaque contrast media solution used to make X-ray pictures clearer, saw first-quarter operating profit increase to Nkr234m from Nkr200m last year.

CL Pharma, the Austrian unit in which Hafslund owns a 55 per cent stake, achieved an operating profit of Nkr38m, or roughly the same as its R&D costs.

The metals unit, sold earlier this year, was not included in first-quarter figures.

DSM hit by tighter margins

By Our Financial Staff

DSM, the Dutch chemical group which was partially privatised in an international launch last year, yesterday reported an 18.5 per cent fall in first-quarter results, following the trend set by Akzo, the other big Dutch chemical concern, last week.

DSM's net profit dropped to F1.242m (€128.7m) from F1.297m a year earlier, in spite of a 5.6 per cent rise in sales from F1.73bn to F1.85bn and an extraordinary gain of F1.2m. Also, DSM reported that its tax burden was reduced to F18m compared to F139m in 1989.

These factors helped produce results that were above ana-

lysts expectations, and DSM's share price closed yesterday at F113.70. Mr Rob Swears, an analyst with Banque Paribas, said of the first-quarter performance: "It certainly was not bad considering that the first part of last year was a record period for the chemical industry."

As with Akzo, DSM's lower profit figures were largely due to reduced margins in its core business. Pre-tax operating profits fell to 11 per cent of total sales compared to 15 per cent in the 1989 first quarter.

DSM attributed the decrease in profit margins to a substantial fall in the sales price of

plastics, a trend that started in the second half of 1989. DSM added, however, that the trend was partly offset by lower feed-stock costs.

DSM's earnings per share fell to F1.630 from F1.850 in the 1989 quarter.

In its forecast for 1990, DSM said: "At present, the course of business for most of our products is such that the group's operating results reflect the same good level seen in the second half of 1989. Under present circumstances, however, we think it is too early yet to express concrete expectations regarding the results for the current year as a whole."

Hoechst starts year on weak note

By Andrew Fisher

HOECHST, the big West German chemicals concern, yesterday announced an 8.5 per cent fall in first-quarter group pre-tax profits to DM920m (€40m), though Mr Wolfgang Hilger, the chief executive, said the aim was still to achieve a result for the whole of 1990 around last year's level.

"We started the new financial year with the handicap of lower exchange rates and prices," he commented. However, higher volume sales in western Europe showed that business conditions remained basically favourable. Turnover in the quarter rose only 0.3 per cent to DM11bn.

Turnover for all of 1989 rose

5 per cent to DM46bn, with foreign revenues rising 14 per cent, twice as fast as at home. Group net profits improved by 5.7 per cent to DM2.1bn and the company proposes a DM1 rise in its dividend to DM13 a share. Capital spending was 15 per cent higher at DM3.2bn, around half of this being in Germany.

Explaining the drop in first-quarter profits, Mr Hilger said prices were much lower than last year. The group was also affected by the drop in the dollar, the yen, and sterling. Thus the 5 per cent rise in volume sales was offset by a 7 per cent drop in turnover; new businesses added 2 per cent.

Mr Hilger said chemicals and fibres, with much of their market in the US, were especially hit by the currency falls against the D-Mark. The plastics and chemicals sectors also suffered from lower prices.

In the US, pre-tax profits of Hoechst Celanese fell by 39 per cent in the first quarter to \$88m, on turnover down 8 per cent to \$1.3bn.

However, Mr Hilger said the exchange rate and price differences during the rest of 1990 compared with last year would not be as big as in the first quarter. Thus a profit level of \$88m was still attainable, though it would need a big effort.

Sales growth at Nestlé slackens

By William Dullforce in Zurich

NESTLÉ, the Swiss foods group, should achieve its usual internal sales growth and maintain or even slightly improve its profit margins in 1990, Mr Hansruedi Nestlé, managing director, said yesterday.

In the first quarter, however, turnover reached SF1.15bn (€774m), an advance of only 2.4 per cent over the first three months of 1989. No profit figures were disclosed.

Sales grew by 4 per cent in volume last year and by 22 per cent in Swiss franc terms to SF1.45bn. Net consolidated earnings at SF1.45bn equaled 5 per cent of sales.

The "less than extraordinary" sales growth in the quarter was primarily the result of the strengthening of the franc since the start of the year and the sharp reduction in the price of coffee, Mr Reto Domeniconi, finance director, said. Exchange rate differences had a negative effect of some 3 per-

centage points on the sales figure.

After spending SF8.6bn on acquisitions in 1989, mainly on Britain's Rowntree and Italy's Buitoni, and SF1bn last year, Nestlé had no plans for further purchases after completing a \$70m deal for RJR Nabisco's Curtis Brands chocolate business earlier this year.

However, Mr Domeniconi remarked, multinational companies' stakes within the foods sector had not been finally settled and Nestlé might be "confronted" with a need to make a takeover.

Despite the board's decision on Monday to pull its proposed one-for-30 rights issue and the blocking of an issue of reserve shares by legal action from a small group of shareholders, Nestlé's financial position was strong. Group net indebtedness - borrowings less liquid assets - had been reduced by SF1.58bn to SF1.2bn by the end of 1989 and amounted to

only 35.5 per cent of shareholders' funds.

Mr Domeniconi stressed Nestlé's intention to continue improving the marketability of its shares and to pursue the internationalising policy started in November 1988 with the decision to open the registered shares to foreign ownership. That decision had been justified by the 30 per cent increase in the company's market capitalisation in 1989, well ahead of the 18 per cent increase in the Swiss stock market general index.

More than half the total Nestlé stock and 40 per cent of the registered shares is now held by foreigners. After listing on the London Stock Exchange, extending the Paris quotation to the registered shares and successfully launching American depository receipts on both participation certificates and registered shares in the US, Nestlé next aims at securing a listing in Tokyo.

This advertisement appears as a matter of record only.

April, 1990

Lakeland Power Development Company, Lakeland Power Ltd.
ABB Energy Ventures Inc., ABB Project Finance

proudly announce the financial closing for the United Kingdom's first independent electrical power station under the 1989 Electricity Act.

Lakeland Power Project
£135,000,000

Non-recourse Project Financing

Arranger and Agent
Swiss Bank Corporation

Provided by
Crédit Lyonnais
National Westminster Bank PLC
Skandinaviska Enskilda Banken
Swiss Bank Corporation
The Industrial Bank of Japan, Limited
The Toronto-Dominion Bank

Swiss Bank Corporation

SAINT-GOBAIN
ECU 125,000,000 -
LOAN AT
"VARIABLE INTEREST RATE
AND NO FIXED
REDEMPTION DATE"

Borrowers are hereby informed that the rate applicable for the eleventh period has been fixed at 11.25 %.

Coupon #11 will be payable as from October 26th, 1990 at a price of EC11,250,000 equivalent to an interest of 11.25 % calculated on the basis of 100,000 francs covering the period from April 26th, 1990 to October 26th, 1990 inclusive.

Financial Agent & Reference Agent
CREDIT LYONNAIS
LUXEMBOURG

£150,000,000
Bristol & West
Building Society

Floating Rate Notes due 1994

For the three month interest period May 2, 1990 to August 2, 1990, the rate has been determined at 5.5%. The interest payable on the relevant interest date August 2, 1990 will be £388.71 per £10,000 and £3,887.10 per £100,000 in bearer form.

By: The Chase Manhattan Bank, N.A.
London, Agent Bank
May 3, 1990

PIMA Savings
and Loan
Association
US\$100,000,000
Collateralised
Floating Rate Notes
due 1998

In accordance with the terms of the Indenture, notice is hereby given that the Rate of Interest for the period 1st May, 1990 to 1st August, 1990 has been fixed at 9.1250 per cent per annum. The Interest Amount as defined, of US\$23.32 will be payable on 1st August, 1990.

Bankers de Zonen Wedd Limited
Agent Bank

ALLIANCE LEICESTER
Alliance & Leicester Building Society
£40,000,000

Subordinated Floating Rate Notes 1998

For the six months 27th April, 1990 to 31st October, 1990, the Notes will carry an interest rate of 16.175% per annum with an interest amount of £41,434.59 per £500,000 Note, payable on 31st October, 1990.

Listed on the Luxembourg Stock Exchange.

Bankers Trust
Company, London
Agent Bank

ALLIANCE LEICESTER
Alliance & Leicester Building Society
£150,000,000

Floating Rate Notes due 1996

For the three months 30th April, 1990 to 30th July, 1990, the Notes will carry an interest rate of 15.4375% per annum with an interest amount of £192.44 per £5,000 and £3,848.80 per £100,000 Bond, payable on 30th July, 1990.

Listed on the Luxembourg Stock Exchange.

Bankers Trust
Company, London
Agent Bank

MANUFACTURERS HANOVER

This advertisement appears as a matter of record only.

Industrieförvaltning AB
Hinnerik

U.S. \$100,000,000
Multicurrency Revolving Credit Facility

Arranged by
Manufacturers Hanover Limited

Lead Managed by
Manufacturers Hanover Bank Sverige
Algemene Bank Nederland (Sverige) AB
Banque Nationale de Paris
Hambros Bank Limited
SwedBank
Westdeutsche Landesbank Girozentrale

Managed by
ASLK - CGER Bank
N.V. De Indonesische Overseas Bank
(The Indonesia Overseas Bank)
Postipankki

Co-Managed by
BACOB Savings Bank s.c.
BIKUBEN

Providers of funds
IBJ Schroder Bank & Trust Company
BHF - BANK
Credit Suisse
PKBanken
Swiss Bank Corporation
ASLK-CGER Bank
Manufacturers Hanover Bank Sverige

Nordfinanz Bank Zurich
Skandinaviska Enskilda Banken
BACOB Savings Bank s.c.
BIKUBEN

Agent Bank
Manufacturers Hanover Limited

Security Agent
Manufacturers Hanover Bank Sverige

IBJ Schroder Bank & Trust Company
BHF - BANK
Credit Suisse
PKBanken
Swiss Bank Corporation

Banque et Caisse d'Epargne de l'Etat, Luxembourg
Nordfinanz Bank Zurich
Skandinaviska Enskilda Banken

Bank für Gemeinwirtschaft AG London Branch
Banque Indosuez Sverige AB

Algemene Bank Nederland (Sverige) AB
Banque Nationale de Paris
Hambros Bank Limited
SwedBank
WestLB International S.A.
Banque et Caisse d'Epargne de l'Etat, Luxembourg
N.V. De Indonesische Overseas Bank
(The Indonesia Overseas Bank)
Postipankki
Banque Indosuez Sverige AB
Bank für Gemeinwirtschaft AG London Branch

March, 1990

NOTICE OF REDEMPTION BY THE REGIONAL MUNICIPALITY OF OTTAWA-CARLETON

To the Holders of Debentures U.S. \$40,000,000
14 3/4% Debentures due June 15, 1997
Authorized by By-Law Number 75 of 1982
Amount Redeemable June 15, 1990 - U.S. \$2,622,000

NOTICE IS HEREBY GIVEN THAT The Regional Municipality of Ottawa-Carleton will redeem on June 15, 1990 Debentures bearing the numbers listed below at 100% of the principal amount of each Debenture plus accrued interest to the redemption date.

U.S.\$1,000 COUPON BEARING DEBENTURES

00005	00011	00016	00049	00062	00069	00089	00111	00112	00114	00138	00153	00156	00173	00178	00207	00213	00217	00267	00279
00317	00338	00348	00351	00352	00383	00406	00415	00440	00466	00470	00482	00483	00484	00514	00515	00541	00542	00617	00617
00620	00628	00647	00648	00653	00658	00678	00679	00682	00717	00729	00730	00757	00758	00800	00816	00849	00855	00878	00878
00886	00892	00926	00958	00979	00987	00998	01021	01089	01098	01148	01163	01173	01174	01186	01188	01196	01226	01245	01247
01266	01273	01281	01287	01295	01302	01304	01313	01316	01326	01339	01341	01343	01369	01368	01384	01400	01431	01448	01448
01448	01468	01471	01482	01483	01487	01489	01526	01537	01564	01580	01608	01652	01658	01708	01719	01720	01726	01735	01759
01761	01778	01781	01789	01808	01812	01846	01859	01867	01868	01889	01896	01904	01919	01922	01924	01936	01938	01962	01966
01964	01987	01988	01996	02020	02039	02040	02043	02121	02138	02147	02157	02215	02215	02250	02251	02251	02256	02276	02276
02279	02351	02384	02412	02421	02424	02490	02495	02515	02567	02586	02597	02600	02632	02648	02670	02681	02683	02702	02710
02711	02716	02736	02741	02747	02807	02832	02837	02859	02912	02961	02967	02976	02986	03038	03043	03045	03049	03074	03081
03092	03103	03114	03115	03116	03131	03143	03143	03154	03176	03189	03220	03222	03248	03268	03271	03281	03301	03326	03332
03360	03368	03379	03380	03406	03410	03443	03446	03478	03479	03512	03528	03534	03556	03571	03577	03582	03585	03592	03592
03610	03632	03642	03649	03668	03690	03731	03736	03789	03799	03827	03853	03878	03895	03896	04066	04072	04089	04096	04105
04144	04230	04236	04245	04280	04292	04306	04309	04317	04330	04334	04367	04363	04418	04436	04475	04511	04573	04613	04623
04634	04652	04673	04689	04692	04712	04718	04728	04801	04808	04812	04826	04832	04838	04842	04846	04850	04850	04850	04851
04844	04861	04894	04891	04937	05015	05058	05068	05070	05091	05093	05109	05116	05134	05147	05179	05191	05305	05350	05375
05380	05289	05310	05315	05343	05358	05387	05405	05409	05426	05442	05447	05449	05450	05459	05472	05498	05500	05508	05531
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07107	07110	07115	07120	07125	07130	07135	07140	07145	07150	07155	07160	07165	07170	07175	07180	07185	07190	07195	07200
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07307	07310	07315	07320	07325	07330	07335	07340	07345	07350	07355	07360	07365	07370	07375	07380	07385	07390	07395	07400
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08307	08310	08315	08320	08325	08330	08335	08340	08345	08350	08355	08360	08365	08370	08375	08380	08385	08390	08395	08400
08407	08410	08415	08420	08425	08430	08435	08440	08445	08450	08455	08460	08465	08470	08475	08480	08485	08490	08495	08500
08507	08510	08515	08520	08525	08530	08535	08540	08545	08550	08555	08560	08565	08570	08575	08580	08585	08590	08595	08600
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08707	08710	08715	08720	08725	08730	08735	08740	08745	08750	08755	08760	08765	08770	08775	08780	08785	08790	08795	08800
08807	08810	08815	08820	08825	08830	08835	08840	08845	08850	08855	08860	08865	08870	08875	08880	08885	08890	08895	08900
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09007	09010	09015	09020	09025	09030	09035	09040	09045	09050	09055	09060	09065	09070	09075	09080	09085	09090	09095	09100
09107	09110	09115	09120	09125	09130	09135	09140	09145	09150	09155	09160	09165	09170	09175	09180	09185	09190	09195	09200
09207	09210	09215	09220	09225	09230	09235	09240	09245	09250	09255	09260	09265	09270	09275	09280	09285	09290	09295	09300
09307	09310	09315	09320	09325	09330	09335	09340	09345	09350	09355	09360	09365	09370	09375	09380	09385	09390	09395	09400
09407	09410	09415	09420	09425	09430	09435	09440	09445	09450	09455	09460	09465	09470	09475	09480	09485	09490	09495	09500
09507	09510	09515	09520	09525	09530	09535	09540	09545	09550	09555	09560	09565	09570	09575	09580	09585	09590	09595	09600
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09707	09710	09715	09720	09725	09730	09735	09740	09745	09750	09755	09760	09765	09770	09775	09780	09785	09790	09795	09800
09807	09810	09815	09820	09825	09830	09835	09840	09845	09850	09855	09860	09865	09870	09875	09880	09885	09890	09895	09900
09907	09910	09915	09920	09925	09930	09935	09940	09945	09950	09955	09960	09965	09970	09975	09980	09985	09990	09995	10000

The above Debentures will be paid upon surrender of the Debentures, accompanied by all interest coupons appertaining thereto maturing after June 15, 1990, at the Bank of Nova Scotia Trust Company of New York, New York City, N.Y., U.S.A., or at the option of the holder, at the main office of The Bank of Nova Scotia, 35 Pinebury Square, London, England, EC2A 1BB, the Kredietbank S.A. Luxembourgise in Luxembourg or the Morgan Guaranty Trust Company of New York in Brussels, Belgium.

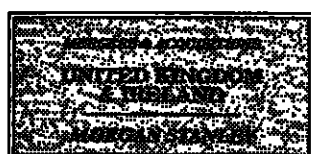
The interest coupons maturing on June 15, 1990 should be detached from the Debentures and cashed before presentation. If such Debentures are presented for payment without all interest coupons appertaining thereto which mature after June 15, 1990, the amount of the missing unmaturing coupons will be deducted from the principal amount due for payment. All interest on the Debentures so redeemed shall cease to accrue from and after June 15, 1990.

The following Debentures previously redeemed on June 15, 1989 have not been presented for payment.

09824	09931	21525	22450	24643	24649	24653	24654
27368	27391	27590	27595	27611	27661	27664	27673
27674	28186	30292	34798	35464	35617	35617	

Morgan Stanley

Recent European M&A Transactions



Grand Metropolitan PLC
acquired
The Pillsbury Company
\$5,773,196,000

Smurfit International B.V.
subsidiary of Jefferson Smurfit Group plc
acquired
The Morgan Stanley Leveraged
Equity Fund II, L.P.

Jefferson Smurfit Corporation
and
Container Corporation of America
\$3,260,000,000

ASDA Group PLC
acquired
61 Stores of
The Gateway Corporation PLC
(subsidiary of houses PLC)
\$1,113,000,000

MB Group PLC
acquired
Caradon plc
\$652,612,000

**The Steak & Ale and
Bennigan's Restaurants of
The Pillsbury Company**
(subsidiary of Grand Metropolitan PLC)
acquired by
Investor Group led by Citicorp Capital
Investors Ltd. and Management
\$494,000,000

MB Group PLC
acquired
American Bank Stationery Company
(subsidiary of Citicorp Capital Investors Ltd.)
\$300,000,000

Drumbe Bee Seafoods Inc.
of The Pillsbury Company
(subsidiary of Grand Metropolitan PLC)
acquired by
Uni Group Inc.
\$269,000,000

Independent Television Publications
(owned by the Independent Television
acquired by
Road International PLC.
\$226,000,000

Omnicon Group Inc.
acquired
Boose Massini Pollitt PLC
\$202,000,000

Lloyds Bank USA
(subsidiary of Lloyds Bank PLC)
acquired by
The Daiwa Bank, Ltd.
\$200,000,000

**Cushman Turf Care Equipment
and Industrial Vehicle Business of
Outboard Marine Corporation**
acquired by
RANSOMES plc
\$150,000,000

**The Consumer Products Group of
Hart Holding Company**
incorporated
acquired by
Dawson International PLC
\$149,000,000

BUPA Health Services Limited
(subsidiary of The British United Provident
Association Ltd.)
acquired
The United Kingdom Hospitals and
Nursing Homes of Hospital
Corporation of America
\$142,000,000

**Van de Kamp's Frozen Seafoods
Division of The Pillsbury Company**
(subsidiary of Grand Metropolitan PLC)
acquired by
Whitman Corporation
\$140,000,000

Thuneco Inc.
acquired
The Suspension Division of
Armstrong Equipment PLC
\$97,200,000

**The Performance Plastics Group of
Borden Corporation**
(subsidiary of Borden plc)
acquired by
The Fluorocarbon Company
\$86,000,000

Philip Crosby Associates, Inc.
acquired by
Alexander Proudfoot PLC
\$75,000,000

J.R. Crompton
(subsidiary of Borden plc)
acquired by
Portals Holdings PLC
\$60,000,000

**The European Contact Lens
Business of The Cooper
Companies, Inc.**
acquired by
Pilkington PLC
\$35,000,000

McGraw-Hill, Inc.*

Macmillan, Inc.
of Maxwell Communication
Corporation plc
have formed a joint venture of their
editorial and secondary educational
publishing and testing business
called
Macmillan/McGraw-Hill School
Publishing Company
The Morgan Stanley Leveraged
Equity Fund II, L.P.

A consortium led by Fitzwilliam Public
Limited Company
have acquired through a jointly owned company
a 25.5% interest in
Waterford Wedgwood PLC
Pratt & Whitney International Services
and Pratt & Whitney International Network*
(subsidiary of Pratt & Whitney
Corporation)
acquired by
Macmillan, Inc.

of Maxwell Communication
Corporation plc
The Jacob's Bakery Limited
of EJR Nabisco, Inc.*
(controlled by Kohlberg Kravis Roberts & Co.)
acquired by
BSN

Smiths Crisps Limited
of EJR Nabisco, Inc.*
(controlled by Kohlberg Kravis Roberts & Co.)
acquired by
BSN

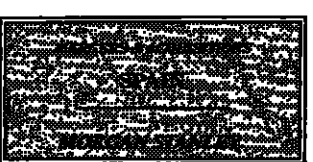
Wallace Crisps Holdings Limited
of EJR Nabisco, Inc.*
(controlled by Kohlberg Kravis Roberts & Co.)
acquired by
BSN



**Marsh & McLennan
Companies, Inc.***
acquisition of a majority interest in
Gradmann & Holler

Westdeutsche Landesbank Girozentrale*
acquired
Selected European Operations
of Standard Chartered PLC

Westdeutsche Landesbank Girozentrale*
and
Standard Chartered PLC
acquired joint venture of their European merchant
banking and corporate finance activities



La Toja, Antica Erboristeria
and certain assets of the European Personal
Care Division of
The Gillette Company
acquired by
Nobel Consumer Goods A.R.
(subsidiary of Nobel Industries A.B.)
\$137,000,000

Intermedics Organics S.A.*
(subsidiary of Intermedics Inc.)
acquired by
Deutsche Farben & Chemikalien Mfg. Co. Ltd.
(subsidiary of Squibb Company)



Montedison S.p.A.
and
Ente Nazionale Idrocarburi
joint venture
\$7,800,000,000

Bailey Controls
(subsidiary of Bailey International Inc.)
acquired by
Finmeccanica S.p.A.
\$296,000,000

Montedison S.p.A.
repurchase of a minority stake in
Autismet N.V.
\$295,000,000

AT&T*
acquired a 50% interest in
Italian Societa Italiana
Telecomunicazioni SpA
and add a 25% interest in
AT&T Network Systems
International B.V.

to
Societa Finanziaria Telefonica per
Azioni

AT&T*
acquired its holdings in
Olivetti
for a minority investment in
CIE S.p.A.

Istituto Bancario Italiano S.p.A.*

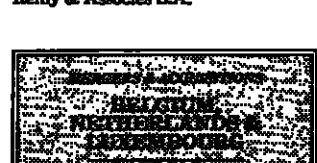
exchange of interest held by
Cassa di Risparmio delle
Province Lombarde
for a minority position in
Banca Jovet S.A.
(subsidiary of Banca San Paolo S.A.)
acquired by
BSN

Saiwa S.p.A.
of EJR Nabisco, Inc.*
(controlled by Kohlberg Kravis Roberts & Co.)
acquired by
BSN

S.A.C.I. S.p.A.*
with
James River International
Holdings, Ltd.
and
Nokia Corporation
have formed a joint venture of certain
paper and related operations
called
J/Mont-Nokia

Santa Rosa S.r.l.*
(subsidiary of J.A. Boncher Gohl)
acquired by
CPC Italia S.p.A.
(subsidiary of CPC International)

**"21" Brands, Distilleria
Rionale di Liquori S.p.A. and
Monte Gay Distilleria Ltd.**
of McKesson Corporation*
acquired by
Remy & Associates S.A.



Southland Life Insurance Company
(subsidiary of American Brands, Inc.)
acquired by
Georgia U.S. Corporation
of Nationale-Nederlanden N.V.
\$440,000,000

Mimmetonka Corporation
acquired by
Unilever N.V. and Unilever PLC
\$376,658,000

Akzo N.V.
acquired
Reliance Universal Inc.
(subsidiary of Tyco Corporation)
\$275,000,000

Boltonmann-Retzerode N.V.
acquired acquisition of
Robert Horne Group plc
\$261,000,000

**The Soft Tissue Operations
of Boltonmann-Retzerode N.V.**
acquired by
James River Corporation
\$95,000,000

**The Medical Division and
Fragrance Marketing Group
of Minnesota Corporation**
(subsidiary of Unilever N.V. and Unilever PLC)
acquired by
Thunmura International Inc.
\$65,500,000

N.V. AMEV*
acquired merger of its entire operations
with those of
Groupe AG
Arbed S.A.

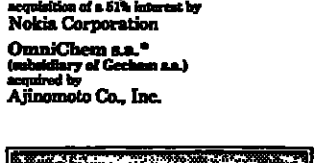
and
Furukawa Electric Co., Ltd.*
acquired
The International Business of
Yatun Industries, Inc.
(subsidiary of Square D Company)

Ervan Perfumes*
acquired by
Chesbrough-Pond's Inc.
of The Unilever Group

**Monumental Life Insurance
Company***
(subsidiary of Amgen N.V.)
acquired
The Home Services Division of
Washington National Insurance
Company

NKF Holding N.V.*
acquired a 51% interest in
Nokia Corporation

OmniChem S.A.*
(subsidiary of Geacem S.A.)
acquired by
Ajinomoto Co., Inc.



Combustion Engineering, Inc.
acquired by
ABB Asea Brown Boveri Ltd.
\$1,600,000,000

Nordbanken
acquired by
PKbanken
\$500,000,000

The Swedish Match Consumer Products Operations

of Svenska Kopparsberg Bergslags AB
acquired by
A Scandinavian led Investor Group
\$530,000,000

Amer Group Ltd.
acquired
Wilson Sporting Goods Co.
\$300,000,000

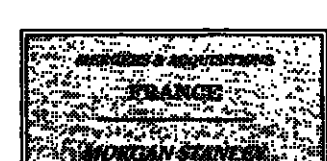
ABB Electric Inc.
(subsidiary of Asea Brown Boveri Inc.)
acquired by
MagneTek, Inc.
\$54,000,000

The Chapman Chemical Company*
(subsidiary of Nobel Industries Sweden AB)
acquired by
Fermenta AB

Kemgard AB*
(subsidiary of Nobel Industries Sweden AB)
acquired by
Rhône-Poulenc S.A.

L-The Company*
acquired by
ESAB AB

**Ryder System Insurance
Management
Services***
(division of Ryder System, Inc.)
acquired by
Scandia International



Societe Nationale RH Aquitaine
acquired
Fouquet Corporation
\$1,241,000,000

**The Bristol Division of
The Black & Decker Corporation**
acquired by
OREM S.A.
\$845,000,000

Matra Aerospace, Inc.
acquired
The Space and Defense Electronics
Businesses of Fairchild Industries, Inc.
(subsidiary of Banner Industries, Inc.)
\$245,000,000

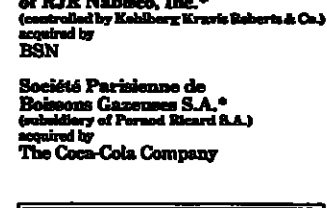
Parfums Stern
(subsidiary of Aesop Products, Inc.)
acquired by
Safrop
(subsidiary of Saffi S.A.)
\$210,000,000

**Central Bank and
CR Insurance Agency, Inc.**
(subsidiary of Central Bank Insurance, Inc.)
acquired by
Bank of the West
of Banque Nationale de Paris
\$54,000,000

Mythic Color Lab, Inc.*
(subsidiary of Graphic Corporation)
acquired by
Fotolabo Club S.A.

Biscuits Belin S.A.
of EJR Nabisco, Inc.*
(controlled by Kohlberg Kravis Roberts & Co.)
acquired by
BSN

**Societe Paradienne de
Biscuits Gallettes S.A.***
(subsidiary of Paradienne S.A.)
acquired by
The Coca-Cola Company



**The Ophthalmic Surgical Products
Business of The Cooper
Companies, Inc.**
acquired by
Alcon Laboratories, Inc.
of Nestle S.A.
\$325,000,000

La Balaie*
acquired
Providence Washington Insurance
Group

**The Ferrary Division of
The Pullman Company***
(controlled by Ferrary Line & Co.)
acquired by
ICM Industries Inc. and
Masg Gear-Wheel & Machine Co. Ltd.

*Price not disclosed

MORGAN STANLEY INTERNATIONAL

May 3, 1990

Michelin Corporation

an affiliated company of

Compagnie Financière Michelin

has acquired

The Uniroyal Goodrich Tire Company

The undersigned jointly initiated this transaction, acted as financial advisors to Michelin Corporation and assisted in the negotiations.

Salomon Brothers Inc

J.P. Morgan

April 1990

This announcement appears as a matter of record only

Macmillan/McGraw-Hill SCHOOL PUBLISHING COMPANY

USD 225,000,000
Revolving Credit Facility

Arranged by: **Lloyds Bank Capital Markets Group**

Provided by: **The Bank of New York**
The Bank of Nova Scotia
Bankers Trust Company
The Chase Manhattan Bank, N.A.
Credit Lyonnais, New York
The First National Bank of Chicago
Lloyds Bank Plc
Swiss Bank Corporation
The Toronto-Dominion Bank

Agent: **Lloyds Bank**
New York Branch

ALLIANCE LEICESTER

Alliance & Leicester Building Society

£40,000,000

Subordinated Floating Rate Notes 1998

For the six months 27th April, 1990 to 31st October, 1990, the Notes will carry an interest rate of 16.175% per annum with an interest amount of £41,434.39 per £500,000 Note, payable on 31st October, 1990.

Listed on the Luxembourg Stock Exchange.

Bankers Trust Company, London

Agent Bank

EXPORT FINANCE

The Financial Times publishes this survey on:

4th June 1990

For a full editorial synopsis and advertisement details, please contact:

Andrew Mark

on 071-873 4063

or write to him at:

Number One
Southwark Bridge
London
SE1 9HL

FINANCIAL TIMES

EUROPE & BUSINESS NEWSPAPER

INTERNATIONAL CAPITAL MARKETS

World Bank in C\$150m issue as prices decline

By Deborah Hargreaves

NEW-ISSUE activity in the Eurobond market perked up yesterday as the World Bank focused attention on the Canadian dollar sector of the market. When the price of Canadian government bonds slipped in the day, the World Bank saw an opportunity to borrow C\$150m in an issue of bonds carrying a coupon of 13.25 per cent.

The World Bank took advantage of the wide appeal investors attach to its bonds by bringing a deal which was tightly priced offering a pick-up in yield of 53 basis points over the comparable five-year government bonds.

IBJ International brought the deal to market at a quiet

time for Eurobonds and in the middle of a Japanese holiday. However, placement of the bonds to institutional investors in Canada, Europe and the Middle East was reported to be fairly prompt.

The bonds were affected by volatility in the underlying Canadian fixed-income market,

but settled towards the close of trading at a level 20 cents inside fees. There was a suggestion that the deal had found a favourable swap rate into US dollars, but the lead managers

would make no comment. The World Bank bonds should fill pockets of demand for five-year paper in the Canadian market, which saw a previous issue of bonds for International Business Machines absorbed fairly quickly and trading on a spread of 71 basis points over the government bond yesterday.

One of the Japanese securities houses indicated that the issuance of Japanese equity warrants could begin again in July after a stagnant period. The big four houses had asked customers to delay issue of convertible and warrant bonds as well as new equities in mid-March because of the slump in the Tokyo stock market.

NEW INTERNATIONAL BOND ISSUES

Borrower	Amount m.	Coupon %	Price	Maturity	Fees	Book runner
US DOLLARS						
Singapore Ltd. 7 1/2	40	(a)	100 1/8	1998	10bp	Barclays Bank Int.Ltd.
Mitsubishi Oil (UK) 7 1/2 (d)	6	11	101 1/8	1992	1 1/2%	Mitsubishi Finance Int.
Mitsubishi Oil (UK) 7 1/2 (d)	6	(b)	100%	1991	1 1/2%	Mitsubishi Finance Int.
CANADIAN DOLLARS						
World Bank 13 1/4	150	13 1/4	101 1/8	1995	1 1/4/1 1/2	IBJ Int.
D-MARKS						
NatBank of Hungary 9 1/2	200	9 1/2	100	1998	1 1/4/1 1/2	DQ Bank
YEN						
Barque Nationale de Paris 10 1/2	10bn	(c)	101 1/8	1996	1 1/4/1 1/2	JP Morgan Secs. Ltd.

Final terms. Floating rate note, 3-month Libor + 35bp for the first three years, then deal becomes a fixed rate issue paying 10% if call not exercised and put on 16/9/91, semi-annual coupon, discount launched in two tranches. (a) Step down coupon: year 1-10%, year 2-10%, year 3-10%, year 4-10%, year 5-10% and 6-10%.

Drexel UK lending worth third of assets

MONEY lent by the UK arm of Drexel Burnham Lambert, the troubled investment banking firm, amounted to nearly a third of its assets, according to liquidators from accountancy firm PricewaterhouseCoopers, writes Richard Waters.

The \$103m had been borrowed by Drexel from a bank and a trading house as part of a metals trade, said Mr Tim Hayward and Mr Phil Wallace. One creditor, which is owed \$10m, has already made a for-

mal claim to recover the money from a UK subsidiary, DBL Limited, while the other, which is owed the rest, has said it intends to claim.

If these claims succeed, other creditors of DBL Limited will receive only 40 per cent of the money they are owed, together with their share of whatever can be recovered of the \$103m from the US. If the claims fail, creditors will recover all the \$71m they were owed by the company.

The money was paid last year, well before Drexel's liquidity crisis developed.

Even without the loans to the US, it would have been very difficult for the UK operations to continue when the company got into difficulties in the US, the liquidators said.

Creditors of the other main UK operating company, DBL Securities, are set to recover all their money. Most of the \$162m of assets in that company have been realised.

FT INTERNATIONAL BOND SERVICE

Listed are the latest international bonds for which there is an adequate secondary market.

US DOLLAR STRAIGHTS					VEN STRAIGHTS					Closing prices on May 2				
Amount	Rate	Other day	week	Yield	Amount	Rate	Other day	week	Yield	Amount	Rate	Other day	week	Yield
Austria 9 1/2	140	9 1/2	-0.01	9.61	Canada 9 1/2	80	9 1/2	-0.01	9.27	Cr. Local France 6 1/2	300	6 1/2	-0.01	6.66
S.F.C.E. 8 1/2	125	8 1/2	-0.01	9.72	Denmark 6 1/2	300	6 1/2	-0.01	6.66	Denmark 7 1/2	300	7 1/2	-0.01	7.27
S.F.C.E. 9 1/2	125	9 1/2	-0.01	9.77	Denmark 7 1/2	400	7 1/2	-0.01	7.31	E.I.B. 4 1/2	30	4 1/2	-0.01	7.28
Brit. Tel. Fin. 9 1/2	250	9 1/2	-0.01	9.57	E.I.B. 4 1/2	50	4 1/2	-0.01	7.14	Norway 5 1/2	50	5 1/2	-0.01	7.34
C.C.E.C. 9 1/2	250	9 1/2	-0.01	9.48	Norway 5 1/2	50	5 1/2	-0.01	7.33	Sweden 4 1/2	50	4 1/2	-0.01	7.33
Cr. Local France 8 1/2	250	8 1/2	-0.01	9.75	Sweden 4 1/2	50	4 1/2	-0.01	7.33	World Bank 5 1/2	10	5 1/2	-0.01	7.27
Cr. Local France 9 1/2	100	9 1/2	-0.01	9.75	World Bank 5 1/2	10	5 1/2	-0.01	7.27					
Cr. Local France 10 1/2	100	10 1/2	-0.01	9.75										
Cr. Local France 11 1/2	100	11 1/2	-0.01	9.75										
Cr. Local France 12 1/2	100	12 1/2	-0.01	9.75										
Cr. Local France 13 1/2	100	13 1/2	-0.01	9.75										
Cr. Local France 14 1/2	100	14 1/2	-0.01	9.75										
Cr. Local France 15 1/2	100	15 1/2	-0.01	9.75										
Cr. Local France 16 1/2	100	16 1/2	-0.01	9.75										
Cr. Local France 17 1/2	100	17 1/2	-0.01	9.75										
Cr. Local France 18 1/2	100	18 1/2	-0.01	9.75										
Cr. Local France 19 1/2	100	19 1/2	-0.01	9.75										
Cr. Local France 20 1/2	100	20 1/2	-0.01	9.75										
Cr. Local France 21 1/2	100	21 1/2	-0.01	9.75										
Cr. Local France 22 1/2	100	22 1/2	-0.01	9.75										
Cr. Local France 23 1/2	100	23 1/2	-0.01	9.75										
Cr. Local France 24 1/2	100	24 1/2	-0.01	9.75										
Cr. Local France 25 1/2	100	25 1/2	-0.01	9.75										
Cr. Local France 26 1/2	100	26 1/2	-0.01	9.75										
Cr. Local France 27 1/2	100	27 1/2	-0.01	9.75										
Cr. Local France 28 1/2	100	28 1/2	-0.01	9.75										
Cr. Local France 29 1/2	100	29 1/2	-0.01	9.75										
Cr. Local France 30 1/2	100	30 1/2	-0.01	9.75										
Cr. Local France 31 1/2	100	31 1/2	-0.01	9.75										
Cr. Local France 32 1/2	100	32 1/2	-0.01	9.75										
Cr. Local France 33 1/2	100	33 1/2	-0.01	9.75										
Cr. Local France 34 1/2	100	34 1/2	-0.01	9.75										
Cr. Local France 35 1/2	100	35 1/2	-0.01	9.75										
Cr. Local France 36 1/2	100	36 1/2	-0.01	9.75										
Cr. Local France 37 1/2	100	37 1/2	-0.01	9.75										
Cr. Local France 38 1/2	100	38 1/2	-0.01	9.75										
Cr. Local France 39 1/2	100	39 1/2	-0.01	9.75										
Cr. Local France 40 1/2	100	40 1/2	-0.01	9.75										
Cr. Local France 41 1/2	100	41 1/2	-0.01	9.75										
Cr. Local France 42 1/2	100	42 1/2	-0.01	9.75										
Cr. Local France 43 1/2	100	43 1/2	-0.01	9.75										
Cr. Local France 44 1/2	100	44 1/2	-0.01	9.75										
Cr. Local France 45 1/2	100	45 1/2	-0.01	9.75										
Cr. Local France 46 1/2	100	46 1/2	-0.01	9.75										
Cr. Local France 47 1/2	100	47 1/2	-0.01	9.75										
Cr. Local France 48 1/2	100	48 1/2	-0.01	9.75										
Cr. Local France 49 1/2	100	49 1/2	-0.01	9.75										
Cr. Local France 50 1/2	100	50 1/2	-0.01	9.75										
Cr. Local France 51 1/2	100	51 1/2	-0.01	9.75										
Cr. Local France 52 1/2	100	52 1/2	-0.01	9.75										
Cr. Local France 53 1/2	100	53 1/2	-0.01	9.75										
Cr. Local France 54 1/2	100	54 1/2	-0.01	9.75										
Cr. Local France 55 1/2	100	55 1/2	-0.01	9.75										
Cr. Local France 56 1/2	100	56 1/2	-0.01	9.75										
Cr. Local France 57 1/2	100	57 1/2	-0.01	9.75										
Cr. Local France 58 1/2	100	58 1/2	-0.01	9.75										
Cr. Local France 59 1/2	100	59 1/2	-0.01	9.75										
Cr. Local France 60 1/2	100	60 1/2	-0.01	9.75										
Cr. Local France 61 1/2	100	61 1/2	-0.01	9.75										
Cr. Local France 62 1/2	100	62 1/2	-0.01	9.75										
Cr. Local France 63 1/2	100	63 1/2	-0.01	9.75										
Cr. Local France 64 1/2	100	64 1/2	-0.01	9.75										
Cr. Local France 65 1/2	100	65 1/2	-0.01	9.75										
Cr. Local France 66 1/2	100	66 1/2	-0.01	9.75										
Cr. Local France 67 1/2	100	67 1/2	-0.01	9.75										
Cr. Local France 68 1/2	100	68 1/2	-0.01	9.75										
Cr. Local France 69 1/2	100	69 1/2	-0.01	9.75										
Cr. Local France 70 1/2	100	70 1/2	-0.01	9.75										
Cr. Local France 71 1/2	100	71 1/2	-0.01	9.75										
Cr. Local France 72 1/2	100	72 1/2	-0.01	9.75										
Cr. Local France 73 1/2	100	73 1/2	-0.01	9.75										
Cr. Local France 74 1/2	100	74 1/2	-0.01	9.75										
Cr. Local France 75 1/2	100	75 1/2	-0.01	9.75										
Cr. Local France 76 1/2	100	76 1/2	-0.01	9.75										
Cr. Local France 77 1/2	100	77 1/2	-0.01	9.75										
Cr. Local France 78 1/2	100	78 1/2	-0.01	9.75										
Cr. Local France 79 1/2	100	79 1/2	-0.01	9.75										
Cr. Local France 80 1/2	100	80 1/2	-0.01	9.75										
Cr. Local France 81 1/2	100	81 1/2	-0.01	9.75										
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Cr. Local France 108 1/2	100	108 1/2	-0.01	9.75										
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Cr. Local France 111 1/2	100	111 1/2	-0.01	9.75										
Cr. Local France 112 1/2	100	112 1/2	-0.01	9.75										
Cr. Local France 113 1/2	100	113 1/2	-0.01	9.75										
Cr. Local France 114 1/2	100	114 1/2	-0.01	9.75										
Cr. Local France 115 1/2	100	115 1/2	-0.01	9.75										
Cr. Local France 116 1/2	100	116 1/2	-0.01	9.75										
Cr. Local France 117 1/2	100	117 1/2	-0.01	9.75										
Cr. Local France 118 1/2	100	118 1/2	-0.01	9.75										
Cr. Local France 119 1/2	100	119 1/2	-0.01	9.75										
Cr. Local France 120 1/2	100	120 1/2	-0.01	9.75										
Cr. Local France 121 1/2	100	121 1/2	-0.01	9.75										
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Cr. Local France 123 1/2	100	123 1/2	-0.01	9.75										
Cr. Local France 124 1/2	100	124 1/2	-0.01	9.75										

UK COMPANY NEWS

Trading conditions likely to remain difficult but group 'undaunted'
Royal Bank of Scotland at £174m

By David Lascelles, Banking Editor

THE ROYAL BANK of Scotland managed to overcome the worsening UK economic climate to report a small increase in interim profits yesterday - and a large fall in its exposure to highly levered companies.

Pre-tax, the Edinburgh-based group earned £173.6m, up from £171m in the same period last year. Sir Michael Herries, the chairman, said that Scotland was faring better than the rest of the UK but trading conditions were likely to remain difficult.

He added: "Nevertheless, provided there is no further deterioration and the trends we have seen recently continue, we remain undaunted by the prospects for the second half of the financial year."

The profit breakdown showed that the company and its subsidiaries suffered a fall in profits, from £152.8m to £141.4m.

But the final result was achieved with a £21.4m (£18.2m) contribution from associated companies and an exceptional £10.8m recovery of

Third World loan provisions. Earnings per share declined from 14.9p to 13.9p, but the board is proposing a 16.7 per cent increase in dividend to 2.8p per share.

The charge for bad and doubtful debts was raised sharply from £36.2m to £57.8m, reflecting the deterioration in the loan book.

This included an unquantified charge for the group's exposure to the highly leveraged finance market where it has been perceived as a leading player.

Earlier, the group had said this exposure amounted to over £700m. But Mr Kenneth Thompson, the group finance director, said this had been "ill advised" because it was based on a wide definition of highly leveraged finance.

The Royal has now adopted the new official US regulatory definition which yields a figure of £295m.

This is distributed among 115 borrowers across a wide spectrum, with each loan relatively small, Mr Thompson said. Few borrowers showed

signs of trading difficulty, he said. Mr Charles Winter, group chief executive, said the new figure "confirms our gut feeling that our exposure is not significantly different to our peers in the UK."

The US definition is based on a threshold of £20m. If this threshold was lowered to £1m, the Royal's exposure would be about £500m.

The bank has actively traded its Third World debt portfolio with the result that it has been reduced from £404m to £71m, most of which had been provided for.

This enabled £10.8m of provisions to be taken back into the profit and loss account.

Of the group's main divisions, the Royal Bank of Scotland itself earned £137.5m (£142.7m). Charterhouse, the merchant bank, made £21.1m, down from £25.8m because of the softening of the corporate finance market.

Citizens Financial, the group's US bank, managed to resist the severe downturn in the New England real estate market to increase profits to

£11.8m (£8.1m). Mr Winter said the Royal is still considering whether to go ahead with its proposed purchase of Bank Worcester in Massachusetts; this would depend on the level of bad debt provisions which the bank had to make, but at the moment "it is still on track."

The Royal's Finance group earned £3.4m (£7.9m), and Direct Line Insurance £3.5m (£3.1m). Capital House earned £0.5m (£0.8m). There was an extraordinary post-tax gain of £35.8m from the sale of the group's share in the Yorkshire Bank.

The cost to income ratio deteriorated from 63.4 per cent to 65.4 per cent. Mr Thompson said this was because of the long term investments which the bank was making, mainly in developing its branch presence in England.

Total assets rose by 16 per cent to £29.6bn. The group's capital ratios also improved. The total risk asset ratio rose to 12.9 per cent from 11.4 per cent, with Tier 1 rising to 7.3 per cent from 6.5 per cent.

See Lex

Saatchi opts to sell Hay Group to managers

By William Dawkins in Paris

SAATCHI & SAATCHI, the troubled British advertising agency, has rebuffed an acquisition approach for its Hay Group consulting division by Bernard Krief Consultants, the Paris-based business and public relations group, in favour of a management buy-out.

The buy-out, in which the group's 130 partners are led by Mr Lucien Girard, head of its Paris office, is understood to be agreed in principle, ready for completion within the next month.

Krief yesterday claimed that Saatchi was preparing to let Hay's managers buy the operation for between \$90m and \$95m (\$98m), well below the \$130m which the French group says it has offered.

"We are puzzled why Saatchi was not interested in our offer and that they are accepting one much less than we were offering," said Mr Joseph Harris, a spokesman for Krief.

Saatchi said: "We have never had a full, firm and detailed offer from Krief. Negotiations with Hay Group's management are well advanced."

Hay, which employs 2,600 consultants, is the largest of the Saatchi consultancies up for sale and many times the size of Krief, which has a staff of between 150 and 160, operating in Paris, Washington, Brussels and Moscow.

It is expected that the management buy-out will be completed by early June. The only indication available about the price is that Saatchi has said that the price of the operation would rise between £80 and £100m this year.

It is possible that Saatchi will retain an equity stake in Hay.

Hay was unavailable for comment yesterday evening.

Usher Walker slows in second half

Growth slowed in the second half at Usher Walker and the manufacturer of printers' inks and rollers ended 1989 little changed. The pre-tax outcome for the year rose from £1.25m to £1.28m after a 36 per cent mid-year advance from £940,000 to £1,280,000.

Mr Peter Walker, chairman, had said at the half-way stage that the slowdown in the newspaper industry was beginning to be felt. Yesterday the company said that although first quarter sales were up, the corresponding period, the outlook was uncertain, due to the continuing squeeze on consumer spending.

Turnover in 1989 rose 19 per cent to £17.04m (£14.27m). An increased final dividend of 7.5p (7p) raises the total for the year to 11p. Earnings per share fell to 34.74p (35.67p).

For illustrative purposes only the comparison is shown as a loss of £2.27m (£2.27m). Earnings worked through at 5.3p (loss 6.4p) and there is a dividend of 1p.

The results of the coal operations, which included

Shiloh falls to £1.1m in 'difficult' market

Shiloh, textile spinner and manufacturer of medical disposables and protective clothing, reported a decline in pre-tax profits from £4m to £1.1m in the year to March 31. Turnover was £16.8m compared with £15.3m.

The board said that trading conditions remained difficult but the group was in a sound financial position. Additional investment of £700,000 in health care activity should benefit the company in the current year. There are further plans to expand these activities through acquisition and organic growth.

Earnings per share fell from 14.33p to 12.52p. The dividend total is increased from 2.375p to 2.625p with a proposed final of 1.75p (1.5p).

Multitrust in loss and no interim

Adverse market conditions pushed Multitrust into a loss of £14,430 for the half year ended March 31 1990, and the directors are unable to pay the forecast interim dividend of 0.5p.

The loss compared with a profit of £9,833, and equalled 0.41p (earnings 0.25p). After a dealing loss of £15,338 (profit £14,158) revenue was almost held at £27,477 (£28,954). But that was insufficient to counter increased management expenses of £41,907 (£18,121).

Weekly net asset value

Tokyo Pacific Holdings (Sponsor) N.V. Weekly net asset value as at 30.4 was US\$ 163.40. Listed on the Amsterdam Stock Exchange

Information: Persen, Hidding & Persen N.V. Rokin 55, 1012 KK Amsterdam. Tel. +31-20-5211188.



Neil Shaw: heartened by ability of UK sugar refining to maintain operating profits

US corn syrup and starches side helps Tate rise 25%

By Clay Harris, Consumer Industries Editor

A STRONG improvement from US corn syrup and starches and the weakness of sterling helped Tate & Lyle, the world's leading sweeteners group, to increase pre-tax profits by 25 per cent to £27.5m in the 26 weeks to March 31.

Tate said it expected sucrose, its no-calorie sweetener, to receive regulatory approval by the end of 1990. It also expects its pursuit of Berisford International, the British Sugar parent for which it has not yet made an official bid, to be referred to the Monopolies and Mergers Commission.

The interim result was in line with market expectations, and Tate's shares added 4½p to close at 279p.

The advance from £70.2m in the 1989-90 first half came on turnover ahead by 11 per cent to £1,688m (£1,520m). With fully diluted earnings per share up 30 per cent to 11.7p (9p), the interim dividend rises by 14 per cent to 3.3p (2.9p).

Tate was helped by three factors in particular: the turnover at Staley, the US maize processor which made \$30m (£18.5m) in the first quarter alone, against a small loss in the same period of the previous year.

A \$9.3m boost to profits from acquisitions, especially a full six-month contribution from Amstar, the US cane sugar refiner which was part of Tate for only three months of the comparable period.

A \$6.6m benefit from the slide in sterling. Of this, £4m came from the US and Canadian earnings and about £2m from the strengthening of the Belgian franc.

Mr Neil Shaw, chairman, was also heartened by the ability of UK sugar refining to maintain operating profits at £19m despite a £4.8m decline in backdated support payments from the European Community.

Staley's dramatic recovery enabled cereal sweeteners and starches to account for the largest single slice of profits at £25.2m (£27m). Within this sector, the European contribution slipped to £17.7m (£18.6m).

Cane and beet sugar made profits of £51m (£41.5m), and sugar trading and by-products contributed £18.8m (£11.3m) helped by a £3.8m profit on a ship disposal. The loss from other businesses and activities doubled to £3m. Part of this reflected the cost of refurbishing Tate's Thameside head-

quarters at Sugar Quay, near the Tower of London. Businesses for sale, all of which have now left the group, accounted for reduced profits of £5m (£12.3m).

COMMENT Considering all the special factors, and the fact that sugar and cane syrup consumption is relatively even to grow faster than population in Europe and North America, it is unsurprising that Tate is blowing the sucralose horn louder than usual, and that it has chosen this moment to focus on the huge potential of value-added starch products. Expansion in the consolidating Mexican sugar market is also worth noting. But limited upside in the nutritive sweetener core also means a limited risk in recession. Tate not only expects a monopolies referral of its Berisford ambitions; it wants one. This would give another three-month respite, allowing gearing to fall below 100 per cent before the question of bid financing to be faced. Tate, in any case, will not grow on the odds. Assuming full-year profits of £230m, the shares are fairly valued on a prospective fully diluted p/e of 9.2.

Barbican improves to £197,000 midway

Barbican Holdings, the Third Market industrial holding company into which Mr Ron Popely, the chairman, reversed his companies last year, reported pre-tax profits of £197,000 for the six months to end-December 1989.

That compared with £158,000 last time and was achieved on turnover of £1.75m (£283,000).

Net interest payable rose from £235,000 to £310,000. Tax took £77,000 (nil) leaving earnings per share at 0.61p (0.615p).

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Renown moves closer to control of Aquascutum

By David Owen

RENOWN INCORPORATED, Japan's biggest clothing company, yesterday moved closer to securing unequivocal control of Aquascutum Group, when Waterfall, which represents investors owning 27.2 per cent of the UK classic clothing company's 'A' shares, agreed to accept its 20p a share offer.

Renown last month made a recommended offer of 550p per ordinary share and 200p per restricted voting 'A' share for Aquascutum, dramatically entering the fray at a time when the group was under siege from the dissident shareholder consortium. The offer valued Aquascutum at £73.8m.

Waterfall's decision leaves Renown holding (or having agreed to purchase) 81.5 per cent (or 2.55m) of the ordinary shares and 64 per cent (or 17,47m) 'A' shares. This comprises 86 per cent of Aquascutum's total equity share capital.

Mr Brian Myerson, Waterfall chairman, said: "We have achieved one of our primary objectives which was to maximise the value of the 'A' shares. In our opinion, the whole exercise has re-emphasised the iniquitous nature of two-tier voting structures."

It is believed that Waterfall - whose investors include Symphony Capital Corporation, Oceana Development Investment Trust, Mr Gordon Getty and clients of Global Asset Management - purchased its shares at an average of a fraction over 100p per unit. This would appear to leave it with a profit of approximately £7m from its dealings with Aquascutum.

Mr Myerson added: "We are looking for investments in situations where we can apply our expertise to improving businesses. I don't think we would restrict ourselves to companies with dual-voting structures."

MBS cuts loss to £5m but warns on outlook

MBS, micro-computers, mini-computers, maintenance and software company, substantially reduced its net loss from £30.7m to £4.5m in 1989. Before exceptional charges, MBS actually made a profit on continuing activities of £1.2m, against a £579,000 profit last time. On discontinued activities the loss was cut from £6.15m to £3.24m.

However, MBS said yesterday that following the decision to dispose of the substantial proportion of its business, considerable difficulties were experienced in building the continuing businesses in the second half of 1989. The effects

of those difficulties were being felt in the first half of 1990. The group added that substantial sums were owed by Technology Holdings and provision had been made against these amounts. Until the uncertainty was cleared up, the board's intention of proposing a capital reorganisation and the question of any dividend payment was in abeyance.

After exceptional charges of £1.25m (£5.94m), interest payable of £295,000 (£257m), tax credits of £58,000 (£195,000) and an extraordinary debit of £167,000 (£7,07m) there was a loss per share of 4.7p (14.6p).

Polysource plans £105m placing

Polysource Holdings, the Third Market-traded company, yesterday announced a £105m placing of 1.5m shares.

It also said a rights issue would be in view if shareholders approved an acquisition being negotiated with another injection moulding company with sales of over £1m. Its own sales had fallen back since March.

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"In all major areas of our core business we are expecting continuing good performances to produce another satisfactory result for the full year." Neil Shaw
Chairman & Chief Executive

TATE+LYLE

UNAUDITED INTERIM RESULTS		1990	1989
Turnover	£1,682m	£1,517m	
Profit Before Tax	£87.5m	£70.2m	
EPS (Fully Diluted)	11.7p	9.0p	
Interim Dividend	3.3p	2.9p	
Extraordinary Profit	£28.8m	—	

■ Turnover up	11%
■ Profits up	25%
■ EPS up	30%
■ Interim dividend	14%

These Unaudited Interim results do not constitute full financial statements. Details of the Interim Report for the 26 weeks to March 31, 1990 are being mailed to shareholders.

Further copies may be obtained from: N. J. Nightingale, Secretary, Tate & Lyle PLC, Sugar Quay, Lower Thames Street, London EC3R 6DQ.

Europa Minerals tops £3m in first full year

In its first full year as a listed company, Europa Minerals, a mining finance house, achieved pre-tax profits of £3.06m for the 12 months ended January 31 1990.

For illustrative purposes only the comparison is shown as a loss of £2.27m (£2.27m). Earnings worked through at 5.3p (loss 6.4p) and there is a dividend of 1p.

The results of the coal operations, which included

Barbican improves to £197,000 midway

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Net interest payable rose from £235,000 to £310,000. Tax took £77,000 (nil) leaving earnings per share at 0.61p (0.615p).

Which company

- ... has reported record results?
- ... has increased turnover by 39%?
- ... has increased profit before tax by 34%?
- ... has increased earnings per share by 50%?
- ... has recommended a 30% increase in dividends?
- ... has growing confidence for the future?

Turrieff, of course! 1989 was another record year for Turrieff. It was a year when diversity proved to be our strength.

We embark upon the 1990's determined to give shareholders a continuing growth in dividends by concentrating our resources in those areas where we believe the best returns can be achieved.

If you would like further information on Turrieff call Malcolm Parker on 0926 410400 or complete the coupon below.

To: Malcolm Parker Financial Director Turrieff Corporation plc PO Box 78 Burdock Road Worwick CV34 5XJ Tel. 0926 410400		Please send me information on:		<input type="checkbox"/> Commercial Property <input type="checkbox"/> Plant Hire <input type="checkbox"/> International Plan Care <input type="checkbox"/> Marketing Services <input type="checkbox"/> Temporary Labour	
Name _____		Address _____		Telephone _____	
Postcode _____		<div style="border: 1px solid black; padding: 2px; text-align: center;">TURRIEFF</div> <div style="border: 1px solid black; padding: 2px; text-align: center;">TURRIEFF</div> <div style="border: 1px solid black; padding: 2px; text-align: center;">TURRIEFF</div>		<div style="border: 1px solid black; padding: 2px; text-align: center;">STRENGTH IN DIVERSITY</div>	



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COMPUTER NEWS



FINANCIAL TIMES

Thursday May 3 1990



New Computer Horizons - Who Cares Wins

By 1990 there will be one computer terminal for every two office staff. This was said in 1982 by Chuck Peddle, founder of Commodore and acknowledged by many as the founder father of the PC.

He also forecast more than 50% of workstation sales would be sold through independent Sales Organisations (ISO), Manufacturers would concentrate on selling to large corporates by offering networks for filing, diary management and mailing. ISO's would develop powerful customer support organisations.

In 1982 personal computers were micro. There was no IBM PC. No standard. No sign either of IBM using third party channels to sell anything.

However, the 1980's proved more than dramatic for the Computer Industry. At the start of the decade the micro chip was new, 16 kilobytes was large and disk capacities were also measured in K's.

Today we see megapal screens and disk capacities measured in gigabytes. Performance enhancements have been achieved with price stability. This coupled with massive volume growth has enabled manufacturers and ISO's alike to keep up their revenue streams and achieve substantial sales.

In fact, many larger ISO's have simply become a low cost sales force for manufacturers. Taking all of the cost and little profit to gain market share, they face a new dilemma. Now the predicted one for two has become reality in the USA, is this the measure at which saturation is defined?

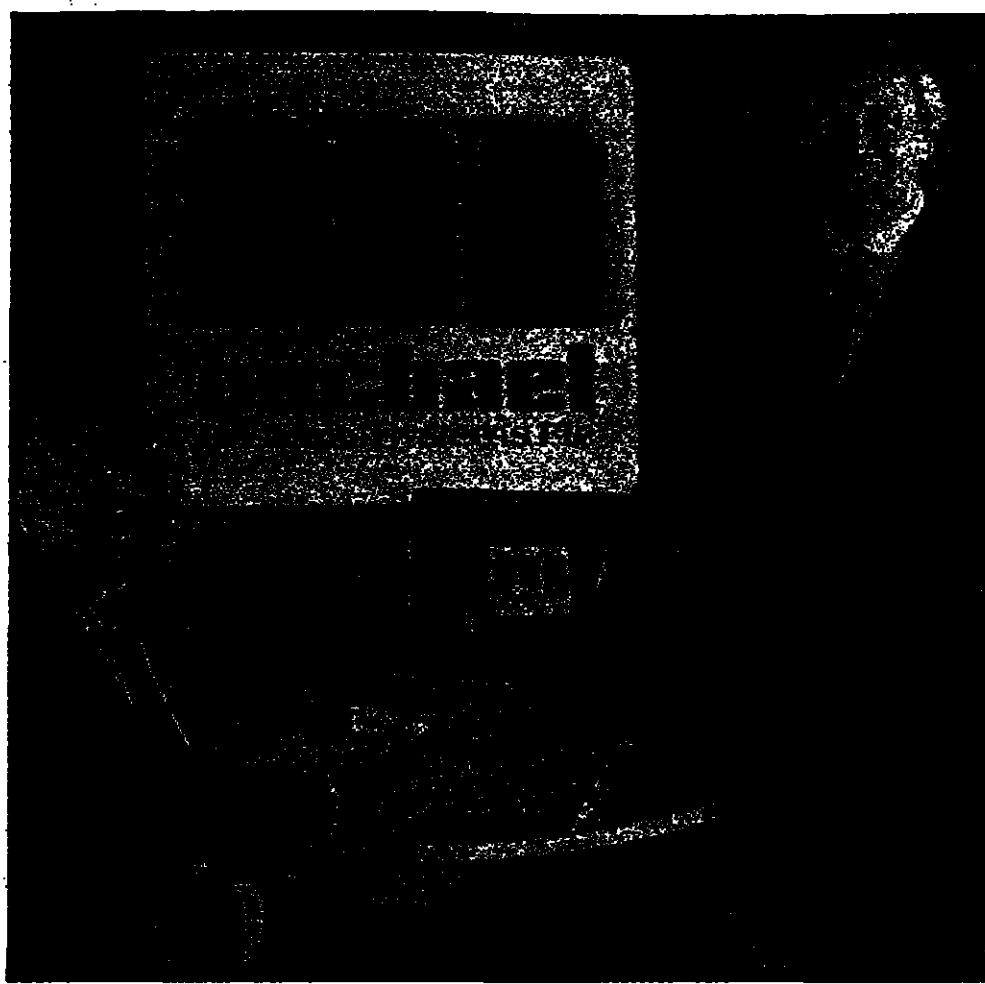
Chuck Peddle was amazingly accurate in his predictions. He did, however, underestimate the amount of business that ISO's would actually do. In the UK more than 90% of IBM Personal Systems were sold by dealers in 1989.

This was due to dealers getting into the IBM corporate market place prepared to sell at far less than the manufacturer. The dealers, however, deliberately avoided the problems of business support and concentrated on volume sales.

Having sacrificed profit in the first decade of the new computer industry, many are now being a real reality in the USA.

Routee (the industry's market analysis guru) said in its April 1990 review, "It's becoming increasingly clear that continued growth in computer markets in the 1990's will depend on value-added services."

The future belongs to a grown up industry. Micros have become more than personal computers. They are capable of exceeding in size the mid range



Mike Roberts, Chief Executive (right) & Barry Jackson, Deputy Chief Executive.

systems of the 80's. They are affordable by moderate size businesses. Price performance enables this large business sector to justify and utilise fully integrated systems.

There will be still the need to "shift boxes" into large accounts as they continue to change over from unintelligent workstations to Personal Systems, but even in these areas technical support is becoming more relevant than price.

As PCs have gained virtually the power and speed of mainframes, so their potential has broken through the barriers of transaction processing and office systems. The speed of data retrieval has replaced another major boost in March with IBM's announcement of super fast and super sized storage devices for PS/2. The power of the 386 and 486 with these disks, with multimedia connectivity, with compression of video data - DVI - opens a whole new area of computing.

Just when Chuck Peddle was forecasting the future, character accountant Mike Roberts was making a move. For several

years he had been Financial Director of Ofrex Group Plc, working with George Drexler the entrepreneur founder who made millions from the one-per-deck stapler concept.

Mike Roberts proceeded to build a solid business, based on commitment to quality and excellence and this has paid dividends in that the business has doubled its profits in every year of its existence.

In 1980 MICHAEL, is trading at an excess of a £11m per annum with a staff level of 91. The acquisition in 1989 of the micro and mid range software business of Moore Computing elevated the company into the top ten of the 400 IBM PC dealers and enhanced the company's ability to provide computer solutions through its well established IBM Mid Range operation.

Identifying with the need to become leaders of competence, the primary objective of MICHAEL was to provide real business solutions through qualified advice, computer consultancy and technical support.

Each market sector needs different skills. MICHAEL responded positively with a divisionalised structure, viz:

● Corporate division where the converted IBM System Centre status held since 1987 significantly contributes to increased sales of PS/2 computers to large multi-national and UK corporate companies.

● Public Sector division recognised as IBM's leading supplier of PS/2 and networks to schools, universities and local authorities.

● Industrial and Commercial Systems division providing application oriented solutions with increasing emphasis on UNIX based systems.

● IBM Mid Range division for niche market application software plus tailored programming for System/36 and AS/400 computers.

● Multimedia division newly created to explore the horizon and maximise the potential from converging technologies.

work training at two locations, plus an extensive network of hardware engineers who provide support maintenance.

Further key elements of the MICHAEL route to success lies in providing career opportunities for staff, establishing professional rapport with clients from corporates to developing companies and building business partnerships with leading suppliers.

Two employees with MICHAEL from the beginning, Nicholas Evans, now Head of Public Sector division and Mark Reader, responsible for Industrial and Commercial Systems activity, have been rewarded with early Board appointments. Management structure has been further strengthened by the recent appointment of Barry Jackson as Deputy Chief Executive. His vast experience in the computer services industry will be utilised in his role of running the Corporate and Mid Range divisions as well as helping to gear the business for the 90's.

In addition to its many IBM accreditations, IBM has recognised the MICHAEL commitment to excellence through quality. For the last three years, MICHAEL has been presented with the highly valued IBM Quality Dealer Award. This year MICHAEL at its Burgess Hill HQ was also very proud to receive the prestigious IBM Dealer of the Year Award for the South of England.

1992 will bring further opportunities for growth outside the United Kingdom.

Plans are in hand for the company to establish itself in continental Europe and they should reach fruition by the end of this year and once in place will provide MICHAEL with a European market profile.

To augment two company's long track record of developing software for IBM's mid range System 36, 38 and AS/400, MICHAEL has set up a separate organisation which is going through the final phases of authorisation to become an IBM agent, which will allow MICHAEL to add the AS/400 to its portfolio.

This will make MICHAEL Business Systems Plc almost unique in its capability to provide the complete range of IBM products from the PS/2, 6150, RS/6000 to the AS/400 with a full range of application software products, training, maintenance and on-going support.

MICHAEL is quite simply a caring, complete computer services operation. Having carefully invested in resources, skills and competence in the 1980's MICHAEL is already prepared for planned take off in 1990.

Major UK Bank installs LLAMAS Package



Kate Leadbetter, Manager Property Finance, Derek Medd, Head of Management Services and Mark Pashington, Project Manager Westpac with Barry Jackson Deputy Chief Executive, MICHAEL, celebrating the completion of the LLAMAS Project.

Westpac General Finance Ltd, a wholly owned subsidiary of the Westpac Banking Corporation of Australia recently purchased and are installing MICHAEL's Loans, Lending & Mortgage Accounting Package (LLAMAS).

The system, which has been extensively enhanced and modified to meet Westpac's requirements, will be used by their property and consumer finance division and will handle all of their current business. The finished system will be ideally suited for future development

keeping Westpac abreast with the ever changing finance environment, and already planned are the introduction of new agreement types and additional reporting functions.

Of course, LLAMAS interfaces fully with MICHAEL's Nominal Ledger package which is designed to provide quick, accurate answers to questions concerning financial status as well as efficient control over all transactions.

The package provides full processing of Westpac's personal loans, leasing agreements, and

News in Brief

● **WOOLWICH BUILDING SOCIETY** - MICHAEL Business Systems gain foothold in the Woolwich. First deliveries were made in January and further development of the account is planned throughout 1990.

● **BARTLE BOGLE & REGARTY** subsidiary The Lexington Street Group has installed MICHAEL's media scheduling and accounting package, Adpac. Adpac runs on either IBM PS/2 micros or Mid Range System/36 and AS/400 mini computers.

● **WESTMINSTER City Council** £230,000 contract for IBM LMS - Local Management of Schools - awarded to MICHAEL. Installation comprise 65 standalone and networked systems at 50 schools.

● **BRIGHTON Borough Council** is networking for Equal Opportunities and higher standards of Houses in Multiple Occupation with new IBM networks installed by MICHAEL.

mortgages as well as providing improved management information.

The packages have been installed on the System/36 at Westpac's Maidenhead office and will be in use at Westpac's branch offices through England via Remote Controller and PC networks.

Multimedia: yours to command

Add stereo sound, super VHS quality vision and touch screen control to IBM computer power, and you have Multimedia. However, Multimedia is NOT just another presentation package.

At Disneyland, for example, it is used for instantly recording and transmitting photo details of lost children right around the complex. Major retailers are looking at capturing complete catalogues and using intelligent touch sensitive screens for customer selection and ordering. Catalogues and pricing changes can be instantly updated from a remote central processor. A major car manufacturer is seeking to use video conferencing to ensure their most experienced engineers can inspect and analyse problems in different plants without having to travel.

Multimedia is the concept of the 90's. It offers users the opportunity to get more from their computers. Interactive video has been around for some time. It has, however, been the domain of specialist production companies where just pressing the disk could cost £40,000 and designing the material could

add up to £100,000. Now, using a hard disc and software, authoring and professional collation is available to the PC user.

Two outstanding software products from IBM are spearheading this revolution in computers: IBM's Audio Visual Connection (AVC) and IBM LinkWay.

AVC allows the capture and editing of sound and images for the creation of special effects and presentations of outstanding resolution and colour. Quality sound and photographic-like pictures combine to offer stunning displays.

Providing similar facilities, IBM LinkWay is an easy to use authoring system which is well suited for the production of training and education material, again linking with a variety of other media to create a powerful teaching and presentation facility.

Use the same technology for developing staff skills or personal training. Internal and external corporate presentations come alive with professional production style product and management information. Your computer becomes the friendly interface for information exchange in the 90's.

To service the growing interest in these converging technologies, MICHAEL Business Systems plc has formed a new Multimedia Division. Geoff Lambert has joined MICHAEL from IBM to head the new division.

MICHAEL is thus uniquely placed for the 1990's to extend its penetration into Corporate, Education and Training market places. The company has complemented its own sales, training and support personnel with business partners who are able to enhance its own skills base on hardware and software products.

Innovative multimedia seminars are being held at MICHAEL's premises in Burgess Hill. On 9th May there is a LinkWay educational and training presentation. On 16th May the first seminar in the UK to cover IBM AVC for corporate customers is being staged.

MICHAEL has already effectively demonstrated video conferencing by linking separate company stands at the IBM 90 Show earlier this year at the NEC, Birmingham. The company will also be exhibiting Multimedia with IBM at the PC User Show at Olympia on 19th to 21st June.

RAM Golf UK tee-off with MICHAEL

Maintaining a leading position in the expanding golf market has enabled RAM Golf UK, the United Kingdom distribution subsidiary of the RAM Golf Corporation of Chicago, to increase turnover from £1.5m in 1987 to £3.5m in 1989. In developing the business, it became obvious to RAM, that one piece of equipment was definitely not up to par for the course - its computer!

Faced with the need for a complete new system, RAM called in consultants, Touche Ross and Co to produce a specification on its computing requirements. This was submitted to several leading computer services companies for tender response.

RAM managing director, Stuart Barber advises: "One dealer more than any other clearly demonstrated they



understood our business problems. Furthermore, members of this dealer's sales team also possess professional accounting qualifications in addition to computing expertise. These factors combined with the cost

effectiveness of their proposed computer solution enabled us to confidently place the installation of our new computer system with MICHAEL Business Systems plc."

The MICHAEL solution that meets RAM's computing needs is an IBM local area network with eight workstations and a Model 90 fileserver running SMB fully integrated business applications software. Modules include Sales and Purchase Order Processing, Sales Analysis, Stock Control and Sales, Purchase and Nominal Ledger, aided by installation, implementation and training by MICHAEL.

RAM now has an effective grip to control its 430 product lines and initiate easy sales and profitability analysis and marketing data to 128 contracted golf club professionals and 1400 other outlets in the UK.

The Business of Education Training in the 1990s

Barnfield College, Luton, is using two new powerful IBM local area networks installed by MICHAEL Business Systems Plc to teach Office Automation and Information Technology to 1990 industry standards.



Ian Brooks and Virginia Kerridge of Barnfield College.

Ian Brooks, Barnfield chief administrative officer states: "By combining the image of IBM with the total competitive package offered by MICHAEL, we were able to go for the most powerful, most capable, most reliable and most PC network in industry."

According to Virginia Kerridge, Barnfield senior lecturer IT, "The significant edge MICHAEL has over rivals is that amongst its many IBM accreditations, it is both a Systems Centre and Specialist Education Centre. This dealer knows the working practices of both industry and education."

The separate but identical Token Ring networks, located over three miles apart, run Novell Netware, QED 2 and a variety of software on the latest PS/2 micro channel machines. Each configuration has a 386 fileserver, a comma server and twenty 286 hard disk colour monitor MCA PS/2s.

Each comma server emulates a mainframe to communicate with the other network. Intelligent modems make use of the College's internal telephone system and enable students to access Prestel and other public bulletin services economically.

QED 2 software is the leading LAN front-end software. It provides key office functions such as electronic mail, diary and a meeting scheduler as well as data manager, project planning and modem support.

MICHAEL has provided training at all levels. "It is no good installing state-of-the-art Office Automation and IT systems as Barnfield College now has, without due regard to quality staff training, concludes Ian Brooks.

Attwoods choose MICHAEL to aid their expansion

Attwood's Plc is the parent company of a group of companies in the Waste Management and Quarrying Industries with operations in the United Kingdom, United States and West Germany. Drinkwater Sabey Limited the principle United Kingdom subsidiary of Attwoods is a long established and highly successful waste disposal, aggregates and landfill company.

Drinkwater Sabey employed the services of an on-line computer bureau with customised stock and order processing systems which provided sales invoicing and sales analysis

facilities. However, the company outgrew this service in a short time, its rapid growth soon overtaking the processing and reporting capabilities of the bureau. In addition, the company's board had decided to upgrade and improve day-to-day control of the business.

MICHAEL Business Systems was commissioned to design, develop and implement a variety of packages that included ticket production, invoicing and sales analysis and an IBM Mid Range System/36 computer was selected. This was subsequently enhanced to a "D" Model and currently supports some 55 users in

remote locations comprising IBM PS/2 micro computers and 5250 terminals.

Together with Drinkwater's senior management, MICHAEL Business Systems team drew up a feasibility and user specification that defined this fast growing company's current and future requirements accurately.

A development phase followed in which these specifications were turned into a full technical design and implementation programme, and then, finally into systems and software to meet their specialised objectives. Continued enhancements and

systems development involve planned introduction of local area networks at remote locations.

Attwoods endorse that a close working relationship was the key to the success of this project. The association continues, with MICHAEL Business Systems providing enhancements to increase productivity and cost-efficiency for the company. Drinkwater Sabey is currently considering the implementation of systems for the workshops which maintain Drinkwater Sabey's large commercial fleet using IBM PS/2 microcomputer networked on IBM Token Ring.

GREAT MINDS THINK ALIKE

michael
Business Systems Plc

Victoria Way Burgess Hill
West Sussex BN15 9NF
Telephone 0444 870844
Facsimile 0444 232241

UK COMPANY NEWS

Fitzwilton rises sharply to £12m

By Jane Fuller

FITZWILTON, the investment group headed by the Irish-American businessman Mr Tony O'Reilly, saw its pre-tax profit surge to £12.15m, or £1.15m, in 1989.

The company, which has 18 subsidiaries, achieved a 18 per cent increase in sales to £122.5m and provided scope for further purchases. The two prongs would be the core cash-and-carry and motor businesses, and branded products.

A final dividend of 2p makes a total of 3.5p (3.5p for 18 months).

Mr Patrick Dowling, a member of Fitzwilton's executive committee, said Keep had five Ford and five General Motors dealerships. The latter had benefited from the success of the new Vauxhall Cavalier.

Acknowledging a forecast 10 per cent downturn in UK new car sales this year, he responded that 70 per cent of Keep's profit came from servicing, repairs and financing.

On the UK-based cash and carry side, which included five months from MS, Mr Dowling said profit was up 25 per cent.

In a full year, profit contributions would be: motor 40 per cent and cash and carry 30 per cent, with the rest coming from the manufacture, in Ireland, of chest freezers and reflective road signs and vehicle licence plates.

Because of share issues, earnings per share advanced less rapidly to 11.2p (3.5p).

Last month the group announced the issue of about 33m shares at 120p to raise £3.96m. Of this, £2.5m was earmarked for Fitzwilton's share of a 29.9 per cent stake in Waterford Wedgwood acquired with Morgan Stanley, the US investment bank.

Mr Dowling said the impact on Fitzwilton of Waterford Wedgwood, which last year lost £23m after tax, would be very limited because it owned only 9.4 per cent.

The balance of the cash raised would help to reduce Fitzwilton's borrowings of £22.5m and provide scope for further purchases. The two prongs would be the core cash-and-carry and motor businesses, and branded products.

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B&C and plans for Celltech stake disposal

By Peter Marsh

CELLTECH, a private biotechnology company, said yesterday it was

looking for a senior industrialist to take over as chief executive and chairman. The announcement appears to mean the company is likely to remain in the hands of a range of shareholders for the foreseeable future.

Celltech's future has been uncertain for some months as a result of a decision last year by British & Commonwealth Holdings, the company's largest shareholder, to put its 26 per cent stake up for sale.

Many many had B&C's share in Celltech is thought to be worth about

£38m. It has become clear in the past few weeks that the stake is unlikely to be sold to a single buyer, in which case control of Celltech would remain split between a number of shareholders.

In line with this, Celltech said yesterday it had decided to press on with settling the question of senior management at the company.

Mr Gerard Fairclough, chief executive of Celltech, said at the end of last year he would retire shortly.

Baring Brothers has canvassed a number of large drugs companies about the idea of taking over Celltech. Few have been keen to do this although there is some interest in taking up part of the B&C stake.

Far-reaching implications of Crown's sale

Ian Hamilton Fazey looks at the Williams' paint disposal to Nobel Industries

MR BRIAN McGOWAN, chief executive of Williams Holdings, says that its UK-based Crown paint business was not exactly for sale but always open to offers. Having pruned it down and separated out the best bits to keep, Williams was not all that happy with it.

So when Sweden's Nobel Industries came along with a minimum of £205m he grabbed it.

With UK consumer spending uncertain, the sale should have a beneficial effect on Williams' financial performance this year, but it will also have far-reaching implications in Europe.

Although full-year contributions from Keep, MG and Novum, the freezer maker, will ensure that sales continue to surge ahead, earnings are expected to fall because of the extra paper. On Waterford Wedgwood, the first question is will the investment pay off? The current strike is seen as a crucial trial of strength. The second question is will it sap Fitzwilton's management strength? Mr O'Reilly, also chairman of Helix, and Mr Kevin McGowan, chief executive, join the Waterford Wedgwood board. The Fitzwilton camp plays down the diversion and says a strong team remains. But what of Fitzwilton? It has the scope to expand its core areas aggressively, particularly by picking up languishing garages. Yet in the long term its ambitions in the branded products field suggest that the down-to-earth core might be used to generate cash for more glamorous forays in which the benefit to earnings takes rather longer to filter through. A pre-tax profit forecast of £10m gives a prospective multiple of about 10, which seems about right.

Mr Ove Matson, Casco-Nobel chief executive, says that this will soon rise to nearer 300m as the company advances. It is strong in Scandinavia, France and Italy but the last of these is a fragmented, if growing market, with hundreds of companies. Crown will give the Swedes solid stability in a good long-term market, whatever the temporary ups and downs of the UK economy.

ICI warmly welcomed the deal yesterday. "Whatever new competitive pressures this creates, we think that it is a good thing that Crown is going into the ownership of a company that is in the long-term paint business."

However, ICI is more relieved that the buyer was not Alzo, the Netherlands chemicals giant which is its most aggressive competitor in Europe. That would have left ICI well in second place as the European single market approaches in 1992, whatever its strengths as the world's largest paint company.

Mr McGowan was expecting an offer from Alzo after weeks of rumours - untrue, he says - that Crown was for sale.

Certainly, there have been question-marks in the City over Williams' exposure to the consumer sector, squeezed by current economic conditions.

There have also been queries over how quickly the group's gearing levels - 40 per cent at end-1989 after deducting assets (not Crown) held for sale -

might allow a return to the acquisition trail. Williams had said that it believed there might be buying opportunities in the wake of the general downturn in business levels, although remained non-committal about its own plans.

Yesterday, Mr McGowan admitted to being ready to unload for the right price. What was left of Crown seems to have been sitting uselessly in the Williams conglomerate. It made 10.6 per cent on sales last year - good by paint industry standards, but not by Williams'.

Decorative paint, the sector Crown was mainly in, is at the low added value, low price and relatively low technology end of the building and home products market that Williams is in. Moreover, the business is only number two in the UK market, which is dominated by ICI's Dulux brands. Mr McGowan says that Williams has long been unhappy with this lowly position and saw no prospect of it changing.

Indeed, Crown's two technological innovations - Solo, its one-coat gloss brand and Advance its emulsion equivalent - have done well. However, the relative shares of Crown and ICI remain almost the same; industry sources say that any change appears to be among existing Crown brand

loyalists switching within the Crown portfolio.

This means better added value - the new brands sell at a premium of £2 above the normal £10 for 2½ litres - but not enough for Williams, which wanted a faster rate of improvement.

Mr McGowan also said yesterday that he feared ICI's response. The market was getting tighter as consumer spending started to fall, leading to worries that ICI, taking a longer view, would be less worried about embarking on a price war.

ICI dismissed this view, claiming that Solo and Advance were good for the industry simply because they added value, forcing competition in quality. It now expects even more from Casco-Nobel, which it anticipates will take a longer view than Williams on the speed of returns from research and development.

An indicator of Casco-Nobel's commitment is that it is paying a high price for Crown, equivalent to about a year's turnover. Mr McGowan says that it works out at a price-to-earnings ratio of about 15 and is understandably pleased.

However, Crown's assets are worth £102m in the books, and are modern, and Mr Matson says that running a decorative paint business is about market share and marketing and that

this determined the value of Crown to Nobel.

The rise of out-of-town sheds serving DIY home improvement markets has halved the numbers of retail outlets for paint by nearly half from 20,000 in 1979. The sheds determine marketing strategy, not the paint companies.

Self space is reserved for three brands only: the three leaders, which spend most on television advertising, and the retailers' own-label products. Television spending by the brand leaders, ICI and Crown, mirrors their respective market shares. ICI has 34 per cent and spends at least £6m, double that of Crown, which has 17 per cent.

On top of that, Crown has about a quarter of the own-label business, which accounts for 40 per cent of all sales. ICI, like Kellogg in cornflakes, does not make paint for anyone else.

Mr Matson thinks that £205m is therefore fair, although he may yet end up paying more: for every £1 of sales above £205m, Casco-Nobel will have to pay another £2, up to a maximum total price of £240m.

However, Williams wins either way: if the price stays at £205m, Crown will have missed budget. If Williams had not sold, that would have meant at least £3.5m off this year's projected profits.

Swedish bid values Cont Microwave at £15.8m

By David Owen and John Burton

USM-quoted Continental Microwave (Holdings) yesterday announced the terms of a recommended cash offer from Phares Holdings, subsidiary of Nobel Industries of Sweden, which values the Luton-based manufacturer of communications equipment at £15.8m.

Under the terms, Continental shareholders are to be offered 230p per ordinary share and 112p per convertible. The group's directors and certain of their family members who hold in aggregate 28.7 per cent of the ordinary shares and 0.1 per cent of the convertibles have undertaken to accept the bid in respect of their entire holding.

The shares rose 85p to close on a par with the offer price at 230p.

Mr David Young, Continental chairman, said that the deal would enable the company "to exploit more fully its existing and future opportunities." He said "we have felt uncomfortable that we could be the target of an unwelcome bid".

In March, the group reported interim pre-tax profits of £125,000 (£26,000 loss).

The Royal Bank of Scotland Group plc

The Royal Bank of Scotland
Clearing banking and financial services from over 870 branches throughout the UK and overseas

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CAPITAL HOUSE
Investment Management

CITIZENS FINANCIAL GROUP INC.
US regional bank holding company based in Rhode Island

Profits maintained in difficult trading conditions

"THE SLOWDOWN IN THE ECONOMY IS EXPECTED TO CONTINUE DURING 1990 AND ALTHOUGH SCOTLAND IS EXPECTED TO FARE BETTER THAN MUCH OF THE REST OF THE UNITED KINGDOM, TRADING CONDITIONS OVERALL ARE LIKELY TO CONTINUE TO BE DIFFICULT. NEVERTHELESS, PROVIDED THERE IS NO FURTHER DETERIORATION AND THE TRENDS WE HAVE SEEN RECENTLY CONTINUE, WE REMAIN UNDAUNTED BY THE PROSPECTS FOR THE SECOND HALF OF THE FINANCIAL YEAR."

Sir Michael Herries
Chairman

General Accident

POLL RESULTS

Results of the polls taken at the meetings convened by The Court of Session and held on Wednesday, 2nd May 1990 for the purpose of considering a Scheme of Arrangement in connection with the establishment of a new non-insurance holding company 'General Accident plc'.

General Accident Fire and Life Assurance Corporation plc is pleased to announce that the resolutions put, respectively, to meetings of the holders of General Accident Ordinary Shares and General Accident Convertible Loan Notes, were duly passed by the requisite majorities in accordance with Section 425(2) of the Companies Act 1985.

Subject to the approval of The Court of Session it is anticipated that the Scheme of Arrangement will become effective on 6th July 1990.

General Accident Fire and Life Assurance Corporation plc.
World Headquarters: Perth, Scotland FK2 0NR.

PUBLIC WORKS LOAN BOARD RATES

Term	Effective May 2		Non-quota loans A* repaid		Non-quota loans B* repaid		25
	by 1991	1991	by 1991	1991	by 1991	1991	
Over 1 up to 2	15	15	14	14	16	16	15
Over 2 up to 3	14	14	14	14	15	15	14
Over 3 up to 4	14	14	14	14	15	15	14
Over 4 up to 5	14	14	14	14	15	15	14
Over 5 up to 6	14	14	14	14	15	15	14
Over 6 up to 7	14	14	14	14	15	15	14
Over 7 up to 8	13	13	13	13	14	14	14
Over 8 up to 9	13	13	13	13	14	14	14
Over 9 up to 10	13	13	13	13	14	14	14
Over 10 up to 15	13	13	13	13	14	14	14
Over 15 up to 25	13	13	13	13	14	14	14
Over 25	12	12	12	12	13	13	13

*Non-quota loans A are 1 per cent higher in each case than non-quota loans B. *Equal instalments of principal. *Repayment by half-yearly instalments. *Fixed equal half-yearly payments to include principal and interest. *With half-yearly payments of interest only.

Compared with the corresponding period last year, interim pre-tax profits at The Royal Bank of Scotland Group increased by £2.6 million to £173.6 million. Sharply higher levels of provisions for bad debts in the half-year to 31 March 1990 offset an 11 per cent increase in total income. Sales of rescheduling country debt gave rise to a £10.8 million release of exceptional provisions made in recent years.

Despite the difficult economic environment, the Group's six operating divisions continued to trade profitably, and increased their business volumes.

The Group's total assets have increased by 16 per cent since 31 March 1989 and now stand at £29.6 billion.

The interim dividend has been raised by 16.7 per cent from 2.4p to 2.8p per share.

We have continued with our development strategy. In February, we acquired a 19.9 per cent interest in Banco de Comercio e Industria, S.A., a

FINANCIAL HIGHLIGHTS

	(Unaudited) Half-year to 31st March 1990 £m	(Unaudited) Half-year to 31st March 1989 £m	(Audited) Year end to 30th Sept. 1989 £m
Profit before taxation	173.6†	171.0	228.2†
Profit attributable to ordinary shareholders	138.9	109.2	147.1
Retained profit	117.9	90.7	92.4
Total assets	29,593.9	25,445.5	27,435.7
Total shareholders' funds	1,510.2	1,294.8	1,410.7
Earnings per 25p ordinary share	13.9p	14.9p*	19.9p
Dividends per 25p ordinary share	2.8p	2.4p*	7.2p
Dividend cover (times)	5.0	6.2	2.8

†Includes exceptional profits of £10.8m arising from the sale of LDC debt (1989-exceptional charge of £108.3m for the year).

*Adjusted to show the effects of the capitalisation issue in September 1989.

■ Profit before taxation increased to £173.6m.

■ Total assets increased by 16% and now stand at £29.6bn.

■ Dividend raised by 16.7% to 2.8p per share.

Portuguese commercial bank in which Banco Santander Group holds a 29.9 per cent interest, as part of our alliance. That same month, Citizens Financial Group agreed in principle to acquire BankWorcester Corporation, a bank holding company based in Worcester, Massachusetts, which would provide Citizens with access to an important new market and increase their customer base. Completion of the acquisition depends upon the necessary regulatory consents and the fulfilment of a number of conditions including limitations of new loan loss provisions.

Our new joint venture with The Scottish Equitable Life Assurance Society for the sale of life products was established as Royal Scottish Assurance plc in March.

Last December, we announced our intention to sell a controlling interest in A T Mays Group to Carlson Travel Group Inc., and this was completed on 30 April.

UK COMPANY NEWS

French seek to calm an unhappy marriage

Nikki Tait reports on CCF's decision to intervene at Framlington

A few weeks ago, Mr Paul Leach, managing director of Throgmorton Trust, appeared to have reached the end of his tether. Asked, probably for the umpteenth time, what the atmosphere was like at the trust's Framlington fund management subsidiary, he leapt across the plush lobby in the group's new Broadgate offices and flung open a door. It revealed a typical fund management office awash with low-key diligence. There was definitely no blood on the carpet, not even a raised voice.

This, it should be admitted, is in some contrast to the picture regularly painted of the fund management business which Throgmorton acquired after a bid struggle in 1988. Over the past couple of years, disaffected employees on the Framlington side, have given the press a rich vein to tap, and a few adverse events - mainly centring on staff departures - have gone unnoticed.

The saga has undoubtedly been one of the most painful running sores the City has ever endured. In essence, it has represented a genuine culture clash between two "people" businesses. That, in turn, has led to some very public sniping. And a large number of innocent employees and investors have been caught in the cross-fire.

Yesterday, the "solution" materialised. Credit Commercial de France, the French

banking group which sold a minority stake to Throgmorton in 1988, said that it would acquire a 25 per cent interest in the fund management business. This time, however, it will have the ability to move to a majority position. It will also get an initial three seats on the 12-man board, and its president, Mr Rene de la Serre, talked in flowery terms about creating "a unique European fund management group."

But if CCF's arrival seems like a much-needed intervention, it also poses as many questions as it answers. For a start, will it stabilise the situation at Framlington, particularly in terms of further staff outflow?

Secondly, what does the apparent change of heart say about the strategy of the French bank, and changes underway in the fund management sector generally? And, thirdly, are there further general lessons about hostile predatory action for "people" businesses?

The background is complex. In a nutshell, Framlington, a quoted fund management company formed two decades earlier by partners of stockbrokers Laurence Prust, was approached by Throgmorton Investment Management Services in 1988.

Throgmorton, a privately-owned fund manager, differed from Framlington in that most of its funds were in the investment trust sector. Both sides

saw the logic of joining forces - unit trust funds are high-margin but volatile, while investment trust money is

ASSETS UNDER MANAGEMENT at Nov 30 1989 (£m)	
Unit trusts	600
Investment trusts	515
Private clients	271
Institutions/charities/life funds	375
Pension funds	667
Total	2,428

more stable but less profitable - and Framlington bought TIMS for £12.5m.

As a result of the deal, Throgmorton Trust, the largest of the TIMS funds, ended up with 15 per cent of Framlington, making it the second largest external shareholder after CCF, which held 28.8 per cent.

Within a year, management styles at Framlington and TIMS had clashed. The French decided they wanted out and Throgmorton - representing the TIMS camp - bid for Framlington. Framlington searched vainly for a white knight, but eventually wronged some marginal improvements in Throgmorton's terms and recommended the offer.

The internal situation, however, did not improve. Mutterings continued, boosted last

year by news of a Department of Trade and Industry inquiry into insider dealing in respect of share sales by directors of Acacia & Hutchinson, a small edible oils group. Mr Bob Seabrook, the former investment manager of Throgmorton, was one of the directors involved. Mr Seabrook, along with other directors, denied any wrongdoing.

There was further angst over the sacking of Mr Patrick Evershed, a long-established Framlington analyst - a move later deemed by an industrial tribunal to constitute unfair dismissal. That prompted Mr Bill Stutfield, who had stayed on as Framlington's chairman, to leave altogether, while Mr Anthony Milford resigned from the board.

Some senior Framlington staff were still tied by "golden handcuffs", but overall the disaffected lobby could list about a dozen departures, ranging from fairly junior employees to some senior fund managers and ex-Laurence Prust partners, such as Mr Christopher Whitehouse or Mr Ian Rodgers.

So will CCF's re-emergence put an end to the unsettled situation?

Yesterday, there seemed to be a feeling that the move would probably help, despite the bank's previous role. CCF, for its part, was keen to emphasise the complementary strengths of the two businesses - its own European, Canadian and Far East connections, com-

bined with Framlington's UK/US presence and its expertise on the equity side. The themes echoed those sounded in many of the recent links formed recently between continental banks and UK fund management groups.

However, Mr Leach said there would be an uncapping of the handcuffs, together with the associated "non-compete" restrictions. These resulted from a five-year arrangement, set up when Laurence Prust formally cut its links with Framlington, and not previously due to expire before 1991.

Certain sums have been paid annually to ex-Laurence Prust partners and anyone leaving early foregoes the money not yet paid. The size of these benefits have never been quantified in detail, but the annual increments are believed to be worth about £50,000. This "uncuffing", yet to be formally notified, makes the structure of the CCF deal interesting. Although there is a cash down payment, the bank is basing the second payment on 2.75 per cent of funds under management next year. Mr Leach, however, denied that this was a precaution in case any funds left the group. It was, rather, he said, a period in which details of the eventual marriage could be settled.

Even so, analysts suggest that the price which the French are paying for their Framlington "re-entry" is fairly generous. According to

Mr Philip Gibbs, analyst at brokers Alexanders Laing & Cruickshank, the effective price-tag is a multiple of five income is in line with other recent deals but, as a percentage of funds under management, "represents the best price since the summer of 1988."

As for the French change of heart, that was greeted with some raised eyebrows in London and only partially explained by Mr de la Serre yesterday. He suggested that "the market has changed", and that when CCF previously sold its Framlington stake "it was not in our mind to be so international." Now, he said, CCF's aim was to be a European investment bank.

Even if there are no further restrictions, the character of Framlington will have altered irreversibly. For unitholders, there have been some increased charges, broadly forecast when Throgmorton sought control, and one independent adviser yesterday described recent fund management performance as "rather pedestrian." That said, at least from Throgmorton's viewpoint, there has been no great outflow of funds so far.

But with almost everyone involved admitting privately that they would not proceed in quite the same way again, perhaps the enduring lesson of the affair is the inadvisability of hostile bids in "people" businesses.



Bob Hedley

Shareholders who attended Unilever's annual meetings in London and Rotterdam yesterday were rewarded with 1-ounce bottles of Jubilé de Diamant, a limited-edition perfume formulated to mark the 60th anniversary of the corporate alliance which created the Anglo-Dutch food and consumer group, writes Clay Harris.

More than 100,000 bottles of the French perfume - a combination of rose, jasmine, orris, rare woods and musks, lily of the valley and "a wisp of heliotrope" - will be distributed to many shareholders, but will not be sold commercially. The Unilever staff worked hard, but will not be sold commercially. The choice was appropriate after a year in which Unilever's acquisition of Fabergé and Elizabeth Arden made it one of the world's largest cosmetics companies.

Moreover, it reflected the nostalgic nose for fragrances of Sir Michael Angus, chairman (above), who began his business life in toiletries. He said he perceived a "smiff of lilac" although the formula gave no indication any was included.

The board emerged from the London AGM smelling of roses, capped by a falconer's success from Mr Hugh Jenkins of Prudential Portfolio Managers. Only a few thorny questions punctuated the day, which saw no new financial information because Unilever's first quarter results are due on May 11.

Sir Michael, whose histrionics even managed to squeeze a few chuckles out of the dry-as-dust resolution to approve the dividend, was unfazed by the more pointed inquiries.

To a call for Unilever to support the "gallant Lithuanian people" by refusing to sell technology or products to the Soviet Union, he said: "I have a feeling that we probably can't do much to help Lithuania, Latvia and Estonia except to have sympathy." In any case, he said, the Soviet Union's "ability to buy goods - let alone value-added goods - is extremely doubtful in the short term."

He was able to give the same shareholder more satisfaction to an inquiry about a food ingredient. After consulting his technical colleagues, Sir Michael said: "No, we don't use it any more, whatever it may be." However, he was adamant that Unilever intended to continue salmon farming despite last year's losses; the operations in Scotland and Chile were not environmentally unfriendly, he maintained.

Questioned about Unilever's record in promoting women to executive positions, Sir Michael's positive tone was somewhat undermined when he observed that a fellow director had given "an undertaking that before he left the board, there'd be a woman on it. All I can say is, he's quite young."

But if there were no women directors, at least he could point to his Guno Edding, the former Dutch finance minister, who joined Unilever NV's advisory board yesterday. Cocking a snook at Barclays, Sir Michael said: "So we have our chancellor too."

Cadbury planning pref. share issue in Canada

By Vanessa Houliher

CADBURY SCHWEPPE'S, confectionery and soft drinks company, is proposing to raise between \$150m and \$250m by the issue of cumulative perpetual preference shares in Canada.

The shares, which will not be listed on any exchange, will reduce group borrowings, which were increased last year by \$400m after several acquisitions. The issue will provide US dollar and Canadian dollar denominated funding, which will reduce its currency exposure.

At the group's annual meeting yesterday, Sir Graham Day, chairman, said that progress so far in 1990 was in line with plans.

He warned that given likely interest costs and the loss of profits to the second half, interim results would not indicate the trend for the full year, although they should be in line with expectations. He said the company should be in line with expectations.

Mollins, the much-bid for manufacturer of cigarette

Euromoney Publications

Euromoney Publications is buying Camrus Airport Publishing for £1.15m cash and net £700,000 as previously published.

Mr Jeremy Richardson, the controlling shareholder, will receive a £500,000 down payment, plus a further maximum of £650,000 related to turnover.

BLP 10% rise helped by North America

By Vanessa Houliher

BLP, the USM-quoted laminates and mouldings company, yesterday announced pre-tax profits of £2.18m for 1989, a 10 per cent increase over the £1.91m scored last year.

However, earnings per share fell from 8.5p to 8.1p, reflecting the shares issued to buy Woodgate Group, an edge banding group and Berg Group, a West German wrapped mouldings manufacturer.

BLP also announced the sale of TBS, the laminates companies bought in 1988, to its original owners for £1.75m. TBS, which sells to construction and shop fitting markets, saw its profits fall last year and a recovery to 1988 profit levels is not envisaged in the short term. The company said it had changed shape since acquiring TBS and it wished to focus on core businesses.

Profits in the UK dropped from £2.51m to £2.58,000 in 1989, reflecting the difficulties of the furniture and DIY industries. North America contributed an operating profit of £1.02m, compared with a loss of £367,000 previously, and £802,000 came from Europe. The company said that current trading conditions remained difficult because of high interest rates. However, it expected some synergy benefits to be realised this year.

A final dividend of 0.5p was declared, making a total of 2p (3.9p).

John Menzies acquisition

John Menzies has purchased Carpage, a leading IATA wholesale air cargo consolidator. Carpage offers wholesale air cargo services to the air freight forwarding industry.

MERGERS AND ACQUISITIONS

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LAB S.A.
has acquired the assets of **HELCO POLLUTION CONTROL** from **FOSTER WHEELER CORPORATION**
The undersigned initiated this transaction, assisted in the negotiations and acted as financial advisor to LAB S.A.
CL GLOBAL PARTNERS SECURITIES Corp. New-York

BESNIER INTERNATIONAL INC.
has acquired **ATLANTIS DAIRY PRODUCTS INC.**
The undersigned initiated this transaction, assisted in the negotiations and acted as financial advisor to BESNIER INTERNATIONAL INC.
CL GLOBAL PARTNERS SECURITIES Corp. New-York

FRANCO-STEEL CORPORATION
a subsidiary of USINOR S.A. has sold **BARSTEEL INC.** to **HEIDTMAN STEEL PRODUCTS INC.**
The undersigned assisted FRANCO-STEEL CORPORATION in the negotiation.
CL GLOBAL PARTNERS SECURITIES Corp. New-York

FUTURIMAGES
joint venture between **TELE IMAGES, HAVAS** and **GROUP W PRODUCTIONS**
The undersigned initiated this transaction.
CL GLOBAL PARTNERS SECURITIES Corp. New-York

PARAVISION INTERNATIONAL S.A.
a member of the Groupe L'ORÉAL has acquired **FILMATION ASSOCIATES, INC.**
The undersigned initiated this transaction and acted as financial advisor to PARAVISION INTERNATIONAL S.A.
CL GLOBAL PARTNERS SECURITIES Corp. New-York

SANOFI BIO-INDUSTRIES
has acquired 100% of **CONTINENTAL FLAVORS & FRAGRANCES, INC.**
The undersigned initiated this transaction, assisted in the negotiations and acted as financial advisor to SANOFI BIO-INDUSTRIES.
CL GLOBAL PARTNERS SECURITIES Corp. New-York

ECOT IT
has acquired **INTERAKTIE** Utrecht (Netherlands)
The undersigned initiated this transaction and acted as financial advisor to ECOT IT
CREDIT LYONNAIS BANK NEDERLAND Investment Banking Department Amsterdam

FRANS MAAS
a Dutch international transport group has acquired **ITALEXPRESS TRANSPORT** Lyon
The undersigned initiated this transaction and acted as financial advisor to FRANS MAAS
CREDIT LYONNAIS BANK NEDERLAND Investment Banking Department Amsterdam

RECTREL
a member of the Groupe Générale de Belgique has acquired **DECAON** Birmingham (Great Britain)
The undersigned acted as financial advisor to RECTREL
CREDIT LYONNAIS SECURITIES London

GENERAL PORTFOLIO GROUP P.C.
GRUPE DES ASSURANCES NATIONALES has acquired a majority interest in **GENERAL PORTFOLIO GROUP P.C.**
The undersigned initiated this transaction and acted as financial advisor to GENERAL PORTFOLIO
CREDIT LYONNAIS SECURITIES London

LA SEGNEURIE
a member of the Groupe ELF AQUITAINE has acquired **JOHNSTONE'S PAINTS PLC**
The undersigned initiated this transaction and acted as financial advisor to LA SEGNEURIE
CREDIT LYONNAIS SECURITIES London

RECTREL
a member of the Groupe Générale de Belgique has acquired **CEULALLO** Barcelona (Spain)
The undersigned initiated this transaction and acted as financial advisor to RECTREL
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Application will be made to The Stock Exchange for the grant of permission to deal in the new Ordinary Shares and Warrants in the Unlisted Securities Market. It is emphasized that no application has been made for these securities to be admitted to listing.

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Particulars relating to the Company may be obtained during normal business hours on any weekday (Bank Holidays and Saturdays excepted) up to and including 20th June, 1990 from:
Sheppard's, 1 London Bridge, London SE1 9QU.
ICC Corporate Finance Ltd., 31-34 Harcourt Street, Dublin 2.

and during normal business hours on 3rd and 4th May, 1990 from The Company Announcements Office, Irish Stock Exchange, 28 Angelina Street, Dublin 2 and The Stock Exchange, 46-50 Finsbury Square, London EC2A 1DD. Particulars relating to the Company will also be available in the Eutel Unlisted Securities Market Service from 29th May, 1990.

3rd May, 1990.

TECHNOLOGY

The expression "shikake gaisha", or subcontract company, is as out of date in the world of Japanese electronics as the expression "trading company" is in the European business community. Instead, Japan's blue chip electronic equipment manufacturers prefer the phrase "kyoryoku gaisha", or co-operating company.

This co-operating relationship between the equipment maker and its suppliers is characteristic of Japan's electronics industry — as well as its car industry. It is one of the central pillars which supports product quality, according to Tadao Kagano, professor of business administration at the University of Kobe. "About 90 per cent of the quality of the products is dependent on the quality of the parts that go into them," he says.

Whereas in Europe and the US parts manufacturers are the widget and cog makers — as usually viewed as the least glamorous sector of the electronics industry, in Japan they are more frequently recognised as innovative technology companies. "Small entrepreneurial companies grow up round the big assembly companies like Matsushita, and start off as suppliers to them," says Kagano. "When they acquire the technology, they can become global parts suppliers in their own right."

The problem, says Norihito Hattori, senior manager for quality at Toshiba's portable computer factory in Tokyo, is to find a parts supplier which can shadow the development curve of the big manufacturers and keep up with their latest designs. If they achieve this, the co-operating relationship is a long-term one, extending beyond the lifetime of a specific product.

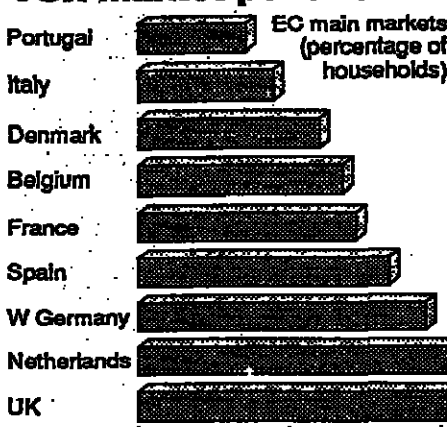
Many western parts suppliers find this concept hard to digest, says Kagano, citing the example of the UK arm of one of Japan's largest electronics companies which tried to take the same approach with a UK-owned supplier. "The Japanese company was amazed that after they had agreed on the development of one component, the UK company was prepared to stop there," reports Kagano.

The Japanese manufacturing system has spawned parts suppliers which rank with many of Europe's largest and most prestigious electronic equipment manufacturers. Most European consumers will be familiar with the names of Sanyo, Sharp, Sony or Toshiba.

Della Bradshaw, concluding a series on Japanese manufacturing success, describes the relationship between electronic equipment makers and suppliers

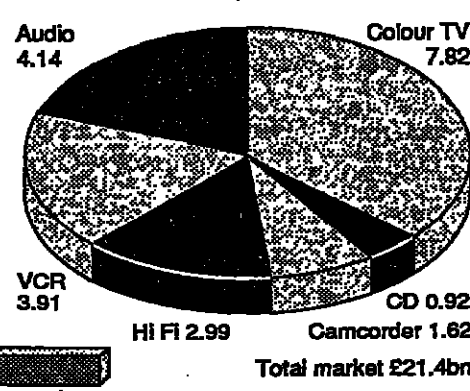
Quality game of follow the leader

VCR market penetration



Consumer electronics

EC market size 1989 (Ebn)



Source: ECE/M Frost & Sullivan

But the name of the Alps Electric Company is more likely to be met with a stunned silence. Despite its western-sounding name, Alps is a Japanese company. It generated a turnover of ¥376.7bn (£1.45bn) for the year ending March 31 1989.

Alps has opened manufacturing facilities where its Japanese customers need its products. It has more than 20 plants as far afield as Australia and Brazil, France, and Malaysia. In 1984, when many Japanese electronic equipment suppliers began moving their manufacturing bases to Europe, Alps established a base in Milton Keynes.

In the UK, Alps specialises in making components for the videorecorder industry, such as tuners or radio frequency modulators, supplying both Japanese manufacturers and indigenous European equipment makers. Prior to the back of one of today's videorecorders and it would be a fair bet that many of the widgets tucked inside come from Alps.

Tumbling off Alps's international production lines are such things as electronic switches and television tuners,

floppy disk drives and key-boards. The components on their own may not be very exciting. But together they comprise the bulk of the electronics industry's most popular products.

The expertise of these "co-operating" companies is not in designing and producing specialised chips — this is usually kept a closely guarded secret by the companies who have designed the products. Instead, their strength is in producing components of high quality and reliability that go into specific breeds of products — videorecorders, colour television sets or video cameras.

"The key point is how to produce things," says Kyoichi Watano, managing director of Alps in the UK. "The product designer has to think of the production process — the machinery and the method when they design the product. The quality, cost and delivery time depend on it."

As miniaturisation has progressed, Watano points out, the production process has had to become more automated to handle the tiny devices, and the parts makers have had to

develop their own sophisticated machines to do the job.

The current pinnacle is a machine designed, manufactured and used by Alps which mounts nearly 800 tiny components on a printed circuit board at one fell swoop of its robotic arm.

Employees from all the firm's European competitors who visit the factory in the UK are amazed by the machine, because, Watano says proudly, there is no risk of them copying the technique — they do not have the capabilities to do so.

Quality does not stop there, he says. There needs to be a "total approach", with the staff properly trained to use the machines in order to maintain the quality. One hundred of Alps's UK staff, for example, have been sent to Japan for special training.

Watano is quick to highlight continuing developments in manufacturing techniques, many intended to reduce the costs of producing older technologies — colour televisions or videorecorders, for example. In the UK Alps has developed a technique to build four video-

recorder modulators on one board. Once stuffed with components the boards are snapped apart into the four different units.

The dependence of the equipment makers on the high quality and reliability of components is highlighted by Kyoichi Kasaba, deputy general manager of Hitachi's consumer electronics division, in Tokyo. He points out that 60 to 70 per cent of all components for his company's consumer goods — videorecorders and video cameras are the most popular Hitachi products — are bought in from parts suppliers, usually the same parts suppliers that make widgets for Matsushita, Sony and Sanyo.

Given this, one difficult thing for the supplier is to maintain the confidentiality of the customer. "Confidentiality is our life," says Watano. But he believes that Alps's independence as a supplier means manufacturers are prepared to divulge information early in the development cycle.

The proof is in the pudding: Alps claims to be the world's leading supplier in certain components, such as power supply switches and devices, needed by all electronic equipment which uses a power supply. Alps claims to have cornered between a 55 and 60 per cent of the world market.

Matsushita, which also makes many consumer electronics goods under the Panasonic and Technics brand names, is Alps's main adversary in the Japanese components market.

By keeping silent Watano believes the co-operating relationship enables his company to have access early in the design cycle for new products so that they can be first in line with the components. Nevertheless, companies such as Alps have to carry out their own research and development work in order to keep up with their customers, but mainly in basic techniques — materials, such as ceramics or magnetics, and manufacturing techniques.

In Milton Keynes Alps is undertaking development work, but not basic research, for the European market. Much of that is involved with making components to conform to European standards, says Watano.

Internationally, the strength of Japanese component makers means that Japanese standards are becoming more widely accepted as the international norm. As Watano points out: "Nowadays most US companies use Japanese-designed components."

Computers listen to radio signals

ONE of the biggest problems with installing a network of office computers is where to house the mass of spaghetti wiring which inevitably accompanies it.

The answer could be to use radio signals between the different computer terminals. Telesystems, of Toronto, has developed a radio-based local area network, called Arlan, which will be available in the UK from ChaseCom, of London, in the autumn.

Arlan uses a technique called spread spectrum technology, which means that the data is spread over a broad band at a much lower density than conventional radio signals. The advantage of the technique, developed originally for high security military applications, is that the signals are difficult to detect by would-be eavesdroppers and there is little chance of interference from other radio sources.

The system is effective between IBM and compatible PCs sited up to 90 metres apart, even when separated by walls.

Lubricants that bear the strain

BEARINGS emerge everywhere, from the largest, greasiest machine to the fan in an electric oven. Wherever they are used, they need lubricating.

Until recently there have been two main types of lubricant: oil-based ones, which perform well in the heat, and organic greases which withstand high pressure. In situations which required both — a domestic washing machine, for example — two different lubricants often had to be used.

To overcome the problem, the Molycote division of Dow Corning, in Munich, has developed a lubricant which can happily withstand temperatures of 180 deg C as well as extreme pressure. It uses a combination of a lithium complex and polyester oil.

Although the Molycote BG 20 lubricant is synthetic it is biodegradable. The manufacturers say that after three weeks 90 per cent of the oil decomposes.

A tighter grip on adhesives

GLUE can be a sticky subject, particularly if it loses its grip

at the critical moment and the two pieces of material come apart.

To make sure adhesives do their job properly, Pora, the contract research company based in Bath, has developed a vision system which keeps an eye on how robots on the production line apply the glue. The aim is to ensure that the right amount of adhesive is applied in the right place, be it on a cooker or a car body.

The vision system uses a charged coupled device — the photo-electric circuitry which is used in video cameras. The images from the production line are transmitted along an optical fibre pipe to the production control computer.

Sun workstation rises faster

AS the workstation becomes more popular as a tool for carrying out large processing tasks, even this speedy desktop machine is beginning to slow down under pressure of work.

Computers, of Chelmsford, Massachusetts, has developed a way of upgrading Sun workstations to make them go even faster. Its Skybolt board increases the machine's processing speed by between seven and 20 times. The board contains two Risc (reduced instruction set computing) microprocessors from Intel, the 1860 and the 1860.

The UK distributor of the board, MicroSystem Services, of High Wycombe, believes the board will find a home in such applications as financial modelling, seismic analysis or simulation.

The package's vanishing act

A PACKAGING material which dissolves in water but is not affected by solvent-based chemicals has won its inventor this year's Institute of Packaging award as Packaging Innovator.

David Edwards developed the packaging concept for Rhone-Poulenc Agriculture, part of the French Rhone-Poulenc group. Although initially developed for use in agrochemicals it could have applications in many other industries.

The package comprises a pouch made of polyvinyl alcohol, a water-soluble plastic. But when filled with sol-



WORTH WATCHING

by Della Bradshaw

vent-based herbicides it maintains its toughness.

The filled sachets are then housed in an injection moulded polypropylene pot, from which they can be dropped straight into a tank of water. There, the packaging dissolves and the herbicide is diluted.

The advantage of the packaging is that it minimises the chances of the chemical touching either humans or the outer packaging, which is discarded.

Preserved tree keeps its looks

OPEN plan offices often seem like a forest of greenery these days, with tropical plants sprouting from every corner. But after a few months the air conditioning and heating often reduce the poor shrubs to a withering mass.

Enter the preserved tree. Developed in the Netherlands, by Shermex of Aalsmeer, and sold in the UK by Inscape, of London, the trees require no light, no water and no soil — just a dust down every three months or so.

The trees are preserved by dipping their roots in a chemical soup which the plant sucks up in the same way as a flower in a vase drinks water. The main chemical in the solution is glycerine.

The only problem with the trees is they do not grow — which may be an advantage, both in the case of the palm tree on the one hand and the bonsai on the other.

Contacts: Telesystems: Canada, 410 441 8006; ChaseCom: UK, 071 281 4455; Dow Corning: West Germany, 89 14691; Pora: UK, 0225 445414; Sky Computers: US, 508 250 1820; MBS: UK, 0434 441651; Rhone-Poulenc: UK, 0277 282127; Shermex: Netherlands, 020 7745498; Inscape: UK, 071 435 8522.

COMPANY NOTICES

ABN Bank

ALGEMEENE BANK NEDERLAND N.V.
Incorporated in The Netherlands with limited liability
Final dividend for the year 1989

At the Annual General Meeting held on May 2, 1990, a final dividend of Dfls 1.50 per share was declared payable, wholly in cash, as from 15 May, 1990.

Coupons can be presented at the following offices:

Billing Brothers & Co., Ltd.
Raffles Place, Singapore
London EC2M 3XY
Algemeene Bank Nederland N.V.
61 King Street
Manchester M2 4PD
Algemeene Bank Nederland N.V.
35 Watendael Street
Birmingham B2 5TL

Stockholders will be entitled to cash payments of Dfls 1.50 per share against coupons, as 5.

U.K. residents who are liable to U.K. taxes on dividends paid to them and who do not carry on a trade or business in the Netherlands through a permanent establishment situated therein, may have Netherlands dividend tax reduced from 25 per cent to 15 per cent, if the coupons are accompanied by a completed form 52VE, which may be obtained at the above mentioned offices.

Amsterdam, May 3, 1990 The Managing Board

TRONOH MINES MALAYSIA BERHAD

(Incorporated in Malaysia)
NOTICE OF MEETING

NOTICE IS HEREBY GIVEN that the Fourteenth Annual General Meeting of members of Tronoh Mines Malaysia Berhad will be held at the 2nd Floor, Menara PNB, 201A, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia on Friday, 1st June, 1990 at 11.00 a.m. for the following purposes:

To consider and, if thought fit, pass Resolutions 1, 2, 3, 4 and 5 as ordinary resolutions and item 6 as a special resolution:

1. That the profit and loss account for the period ended 31st January, 1990 and the balance sheet of the Company at that date and the consolidated profit and loss account for the period ended 31st January, 1990, the consolidated balance sheet at that date and the consolidated statement of assets and liabilities of the Company for the period ended 31st January, 1990 together with the annual reports of the Directors and Auditors be and are hereby received and adopted.
2. That the final dividend of 25 sen per share, less tax at 35%, be and is hereby approved and declared payable on 30th June, 1990 to members registered at the close of business on 15th May, 1990.
3. That Tuan Haji Faisal Ghel, who resigns by rotation, be and is hereby re-elected a Director of the Company.
4. That Tuan Haji Mohd bin Dae' Mahmood, who resigns by rotation, be and is hereby re-elected a Director of the Company.
5. That Mr C W Treloar, who resigns in accordance with Section 129 of the Companies Act, 1965, be and is hereby re-appointed a Director of the Company to hold office until the conclusion of the next Annual General Meeting.
6. That Messrs CPAG Pte Meridex, who are eligible and have given their consent for re-appointment, be and are hereby re-appointed the Company's Auditors for the period until the conclusion of the next Annual General Meeting and that the remuneration to be paid to them be fixed by the Board.

By order of the Board
Wan Mohd Yusoff
Ajima Abdul Aziz
Secretaries

Kuala Lumpur
3rd May, 1990

Notes:
1. A member entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and vote in his stead. A proxy need not be a member of the Company.

A form of proxy to be valid must reach the Registrar's office at 2nd Floor, Menara PNB, 201A, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia or the United Kingdom Registrar's office at 6 Overseas Place, London SW11 1TH, England not less than 48 hours before the meeting.

2. There are no Directors' service contracts required by The International Stock Exchange of London to be made available for inspection at the meeting.

LEGAL NOTICES

The Law Firm of Rogers & Wells

is pleased to announce that

Sara P. Banks

has joined the firm as Counsel

having served as

Chief of the Office of International Corporate Finance
of the United States Securities and Exchange Commission,
which have the primary responsibility for formulating and drafting
Rule 144A and Regulation S
under the Securities Act of 1933

March 28, 1990

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In the last known, contact David Holmes PCA on 01 932 3728, or Fax 01 932 291679 or write to 161 St Margaret Road, Twickenham, Middlesex TW1 1RD

ART GALLERIES

THE HUMAN IMAGE as Sculpture, by Lisa Delaney & David Thompson with Photography by Robert Tagg - April 28 - May 17. Gallery hours: Monday to Friday, from 10.00-6.00 Admission is free, school parties welcome.



FINANCIAL TIMES CONFERENCES

EUROPEAN TRANSPORT IN THE 90s

21 & 22 May, 1990—London

Now that most of the financial problems of the Channel Tunnel project have been settled—at least until the next crisis—Europe has a renewed opportunity to focus on the major transport issues which will face it in the coming decade. Will the UK Government, British Rail and the private sector take full advantage of the opportunities and challenges which the completion of the tunnel will bring? What is the future for the ferries industry? What is the EEC proposing for the implementation of a common European transport system? The extent of the progress to date, and the problems it presents for national governments and private industry, will be at the heart of the Financial Times conference on European Transport in the 90s. Speakers include:

The Rt Hon Cecil Parkinson, MP
Secretary of State for Transport, UK

M. André Bénard
Co-Chairman, Eurotunnel

M. Bernard Lathière
Chairman & President of the Board
Aéroports de Paris

Professor Peter Hall
Director, Institute of Urban & Regional Development
University of California at Berkeley

Mr Tony Stanton
President
Freight Transport Association Limited

Mr Ian Brown
Managing Director, Railfreight Distribution
British Railways Board

Mr Eduardo Peña
Director-General for Transport
Commission of the European Communities

Sir Colin Marshall
Joint Deputy Chairman & Chief Executive
British Airways Plc

Mr Brian Unwin, CB
Chairman, HM Customs & Excise

Mr Dan Sten Olsson
Chief Executive Officer
Stena AB

Mr Eric Kocher
President
ABB Transportation GmbH

Mr Erik Vandenbroele
Secretary-General
Community of European Railways

A limited amount of exhibition space is available at the conference.

EUROPEAN TRANSPORT IN THE 90s

Please send me further details.

I am interested in exhibiting at the conference.

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11.91	124	913	Bowser Inc.	14 1/2	97.88	10	Playa Pure Tech. Corp.	260	-	-
11.72	98	7	Braniff 75c	8 1/2	97.88	69	Frontenac-Dom. Dis.	94	75c	4.5
6.77	45	35	75c Intnl. 25c	42 1/2	92 1/2	76	Trans Can Pipe	78 1/2	60c	4.6
10.88	95	71	Amal Horms Inc.	94 1/2	200 1/2	145	Varsity Corp.	142 1/2	8	-
11.67	302 1/2	27	Campbell Soap 15c	39 1/2	1.9					

Continued on next page

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INDUSTRIALS (Miscel.)—Contd.

1990	Stock	Price	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040	2041	2042	2043	2044	2045	2046	2047	2048	2049	2050	2051	2052	2053	2054	2055	2056	2057	2058	2059	2060	2061	2062	2063	2064	2065	2066	2067	2068	2069	2070	2071	2072	2073	2074	2075	2076	2077	2078	2079	2080	2081	2082	2083	2084	2085	2086	2087	2088	2089	2090	2091	2092	2093	2094	2095	2096	2097	2098	2099	2100	2101	2102	2103	2104	2105	2106	2107	2108	2109	2110	2111	2112	2113	2114	2115	2116	2117	2118	2119	2120	2121	2122	2123	2124	2125	2126	2127	2128	2129	2130	2131	2132	2133	2134	2135	2136	2137	2138	2139	2140	2141	2142	2143	2144	2145	2146	2147	2148	2149	2150	2151	2152	2153	2154	2155	2156	2157	2158	2159	2160	2161	2162	2163	2164	2165	2166	2167	2168	2169	2170	2171	2172	2173	2174	2175	2176	2177	2178	2179	2180	2181	2182	2183	2184	2185	2186	2187	2188	2189	2190	2191	2192	2193	2194	2195	2196	2197	2198	2199	2200	2201	2202	2203	2204	2205	2206	2207	2208	2209	2210	2211	2212	2213	2214	2215	2216	2217	2218	2219	2220	2221	2222	2223	2224	2225	2226	2227	2228	2229	2230	2231	2232	2233	2234	2235	2236	2237	2238	2239	2240	2241	2242	2243	2244	2245	2246	2247	2248	2249	2250	2251	2252	2253	2254	2255	2256	2257	2258	2259	2260	2261	2262	2263	2264	2265	2266	2267	2268	2269	2270	2271	2272	2273	2274	2275	2276	2277	2278	2279	2280	2281	2282	2283	2284	2285	2286	2287	2288	2289	2290	2291	2292	2293	2294	2295	2296	2297	2298	2299	2300	2301	2302	2303	2304	2305	2306	2307	2308	2309	2310	2311	2312	2313	2314	2315	2316	2317	2318	2319	2320	2321	2322	2323	2324	2325	2326	2327	2328	2329	2330	2331	2332	2333	2334	2335	2336	2337	2338	2339	2340	2341	2342	2343	2344	2345	2346	2347	2348	2349	2350	2351	2352	2353	2354	2355	2356	2357	2358	2359	2360	2361	2362	2363	2364	2365	2366	2367	2368	2369	2370	2371	2372	2373	2374	2375	2376	2377	2378	2379	2380	2381	2382	2383	2384	2385	2386	2387	2388	2389	2390	2391	2392	2393	2394	2395	2396	2397	2398	2399	2400	2401	2402	2403	2404	2405	2406	2407	2408	2409	2410	2411	2412	2413	2414	2415	2416	2417	2418	2419	2420	2421	2422	2423	2424	2425	2426	2427	2428	2429	2430	2431	2432	2433	2434	2435	2436	2437	2438	2439	2440	2441	2442	2443	2444	2445	2446	2447	2448	2449	2450	2451	2452	2453	2454	2455	2456	2457	2458	2459	2460	2461	2462	2463	2464	2465	2466	2467	2468	2469	2470	2471	2472	2473	2474	2475	2476	2477	2478	2479	2480	2481	2482	2483	2484	2485	2486	2487	2488	2489	2490	2491	2492	2493	2494	2495	2496	2497	2498	2499	2500	2501	2502	2503	2504	2505	2506	2507	2508	2509	2510	2511	2512	2513	2514	2515	2516	2517	2518	2519	2520	2521	2522	2523	2524	2525	2526	2527	2528	2529	2530	2531	2532	2533	2534	2535	2536	2537	2538	2539	2540	2541	2542	2543	2544	2545	2546	2547	2548	2549	2550	2551	2552	2553	2554	2555	2556	2557	2558	2559	2560	2561	2562	2563	2564	2565	2566	2567	2568	2569	2570	2571	2572	2573	2574	2575	2576	2577	2578	2579	2580	2581	2582	2583	2584	2585	2586	2587	2588	2589	2590	2591	2592	2593	2594	2595	2596	2597	2598	2599	2600	2601	2602	2603	2604	2605	2606	2607	2608	2609	2610	2611	2612	2613	2614	2615	2616	2617	2618	2619	2620	2621	2622	2623	2624	2625	2626	2627	2628	2629	2630	2631	2632	2633	2634	2635	2636	2637	2638	2639	2640	2641	2642	2643	2644	2645	2646	2647	2648	2649	2650	2651	2652	2653	2654	2655	2656	2657	2658	2659	2660	2661	2662	2663	2664	2665	2666	2667	2668	2669	2670	2671	2672	2673	2674	2675	2676	2677	2678	2679	2680	2681	2682	2683	2684	2685	2686	2687	2688	2689	2690	2691	2692	2693	2694	2695	2696	2697	2698	2699	2700	2701	2702	2703	2704	2705	2706	2707	2708	2709	2710	2711	2712	2713	2714	2715	2716	2717	2718	2719	2720	2721	2722	2723	2724	2725	2726	2727	2728	2729	2730	2731	2732	2733	2734	2735	2736	2737	2738	2739	2740	2741	2742	2743	2744	2745	2746	2747	2748	2749	2750	2751	2752	2753	2754	2755	2756	2757	2758	2759	2760	2761	2762	2763	2764	2765	2766	2767	2768	2769	2770	2771	2772	2773	2774	2775	2776	2777	2778	2779	2780	2781	2782	2783	2784	2785	2786	2787	2788	2789	2790	2791	2792	2793	2794	2795	2796	2797	2798	2799	2800	2801	2802	2803	2804	2805	2806	2807	2808	2809	2810	2811	2812	2813	2814	2815	2816	2817	2818	2819	2820	2821	2822	2823	2824	2825	2826	2827	2828	2829	2830	2831	2832	2833	2834	2835	2836	2837	2838	2839	2840	2841	2842	2843	2844	2845	2846	2847	2848	2849	2850	2851	2852	2853	2854	2855	2856	2857	2858	2859	2860	2861	2862	2863	2864	2865	2866	2867	2868	2869	2870	2871	2872	2873	2874	2875	2876	2877	2878	2879	2880	2881	2882	2883	2884	2885	2886	2887	2888	2889	2890	2891	2892	2893	2894	2895	2896	2897	2898	2899	2900	2901	2902	2903	2904	2905	2906	2907	2908	2909	2910	2911	2912	2913	2914	2915	2916	2917	2918	2919	2920	2921	2922	2923	2924	2925	2926	2927	2928	2929	2930	2931	2932	2933	2934	2935	2936	2937	2938	2939	2940	2941	2942	2943	2944	2945	2946	2947	2948	2949	2950	2951	2952	2953	2954	2955	2956	2957	2958	2959	2960	2961	2962	2963	2964	2965	2966	2967	2968	2969	2970	2971	2972	2973	2974	2975	2976	2977	2978	2979	2980	2981	2982	2983	2984	2985	2986	298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FOOD, GROCERIES, ETC.[illegible]

INSURANCES

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INDUSTRIALS (Miscel.)

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MOTORS, AIRCRAFT TRADES

1990	1989	1988	1987	1986	1985	1984	1983	1982	1981	1980	1979	1978	1977	1976	1975	1974	1973	1972	1971	1970	1969	1968	1967	1966	1965	1964	1963	1962	1961	1960	1959	1958	1957	1956	1955	1954	1953	1952	1951	1950	1949	1948	1947	1946	1945	1944	1943	1942	1941	1940	1939	1938	1937	1936	1935	1934	1933	1932	1931	1930	1929	1928	1927	1926	1925	1924	1923	1922	1921	1920	1919	1918	1917	1916	1915	1914	1913	1912	1911	1910	1909	1908	1907	1906	1905	1904	1903	1902	1901	1900	1899	1898	1897	1896	1895	1894	1893	1892	1891	1890	1889	1888	1887	1886	1885	1884	1883	1882	1881	1880	1879	1878	1877	1876	1875	1874	1873	1872	1871	1870	1869	1868	1867	1866	1865	1864	1863	1862	1861	1860	1859	1858	1857	1856	1855	1854	1853	1852	1851	1850	1849	1848	1847	1846	1845	1844	1843	1842	1841	1840	1839	1838	1837	1836	1835	1834	1833	1832	1831	1830	1829	1828	1827	1826	1825	1824	1823	1822	1821	1820	1819	1818	1817	1816	1815	1814	1813	1812	1811	1810	1809	1808	1807	1806	1805	1804	1803	1802	1801	1800	1799	1798	1797	1796	1795	1794	1793	1792	1791	1790	1789	1788	1787	1786	1785	1784	1783	1782	1781	1780	1779	1778	1777	1776	1775	1774	1773	1772	1771	1770	1769	1768	1767	1766	1765	1764	1763	1762	1761	1760	1759	1758	1757	1756	1755	1754	1753	1752	1751	1750	1749	1748	1747	1746	1745	1744	1743	1742	1741	1740	1739	1738	1737	1736	1735	1734	1733	1732	1731	1730	1729	1728	1727	1726	1725	1724	1723	1722	1721	1720	1719	1718	1717	1716	1715	1714	1713	1712	1711	1710	1709	1708	1707	1706	1705	1704	1703	1702	1701	1700	1699	1698	1697	1696	1695	1694	1693	1692	1691	1690	1689	1688	1687	1686	1685	1684	1683	1682	1681	1680	1679	1678	1677	1676	1675	1674	1673	1672	1671	1670	1669	1668	1667	1666	1665	1664	1663	1662	1661	1660	1659	1658	1657	1656	1655	1654	1653	1652	1651	1650	1649	1648	1647	1646	1645	1644	1643	1642	1641	1640	1639	1638	1637	1636	1635	1634	1633	1632	1631	1630	1629	1628	1627	1626	1625	1624	1623	1622	1621	1620	1619	1618	1617	1616	1615	1614	1613	1612	1611	1610	1609	1608	1607	1606	1605	1604	1603	1602	1601	1600	1599	1598	1597	1596	1595	1594	1593	1592	1591	1590	1589	1588	1587	1586	1585	1584	1583	1582	1581	1580	1579	1578	1577	1576	1575	1574	1573	1572	1571	1570	1569	1568	1567	1566	1565	1564	1563	1562	1561	1560	1559	1558	1557	1556	1555	1554	1553	1552	1551	1550	1549	1548	1547	1546	1545	1544	1543	1542	1541	1540	1539	1538	1537	1536	1535	1534	1533	1532	1531	1530	1529	1528	1527	1526	1525	1524	1523	1522	1521	1520	1519	1518	1517	1516	1515	1514	1513	1512	1511	1510	1509	1508	1507	1506	1505	1504	1503	1502	1501	1500	1499	1498	1497	1496	1495	1494	1493	1492	1491	1490	1489	1488	1487	1486	1485	1484	1483	1482	1481	1480	1479	1478	1477	1476	1475	1474	1473	1472	1471	1470	1469	1468	1467	1466	1465	1464	1463	1462	1461	1460	1459	1458	1457	1456	1455	1454	1453	1452	1451	1450	1449	1448	1447	1446	1445	1444	1443	1442	1441	1440	1439	1438	1437	1436	1435	1434	1433	1432	1431	1430	1429	1428	1427	1426	1425	1424	1423	1422	1421	1420	1419	1418	1417	1416	1415	1414	1413	1412	1411	1410	1409	1408	1407	1406	1405	1404	1403	1402	1401	1400	1399	1398	1397	1396	1395	1394	1393	1392	1391	1390	1389	1388	1387	1386	1385	1384	1383	1382	1381	1380	1379	1378	1377	1376	1375	1374	1373	1372	1371	1370	1369	1368	1367	1366	1365	1364	1363	1362	1361	1360	1359	1358	1357	1356	1355	1354	1353	1352	1351	1350	1349	1348	1347	1346	1345	1344	1343	1342	1341	1340	1339	1338	1337	1336	1335	1334	1333	1332	1331	1330	1329	1328	1327	1326	1325	1324	1323	1322	1321	1320	1319	1318	1317	1316	1315	1314	1313	1312	1311	1310	1309	1308	1307	1306	1305	1304	1303	1302	1301	1300	1299	1298	1297	1296	1295	1294	1293	1292	1291	1290	1289	1288	1287	1286	1285	1284	1283	1282	1281	1280	1279	1278	1277	1276	1275	1274	1273	1272	1271	1270	1269	1268	1267	1266	1265	1264	1263	1262	1261	1260	1259	1258	1257	1256	1255	1254	1253	1252	1251	1250	1249	1248	1247	1246	1245	1244	1243	1242	1241	1240	1239	1238	1237	1236	1235	1234	1233	1232	1231	1230	1229	1228	1227	1226	1225	1224	1223	1222	1221	1220	1219	1218	1217	1216	1215	1214	1213	1212	1211	1210	1209	1208	1207	1206	1205	1204	1203	1202	1201	1200	1199	1198	1197	1196	1195	1194	1193	1192	1191	1190	1189	1188	1187	1186	1185	1184	1183	1182	1181	1180	1179	1178	1177	1176	1175	1174	1173	1172	1171	1170	1169	1168	1167	1166	1165	1164	1163	1162	1161	1160	1159	1158	1157	1156	1155	1154	1153	1152	1151	1150	1149	1148	1147	1146	1145	1144	1143	1142	1141	1140	1139	1138	1137	1136	1135	1134	1133	1132	1131	1130	1129	1128	1127	1126	1125	1124	1123	1122	1121	1120	1119	1118	1117	1116	1115	1114	1113	1112	1111	1110	1109	1108	1107	1106	1105	1104	1103	1102	1101	1100	1099	1098	1097	1096	1095	1094	1093	1092	1091	1090	1089	1088	1087	1086	1085	1084	1083	1082	1081	1080	1079	1078	1077	1076	1075	1074	1073	1072	1071	1070	1069	1068	1067	1066	1065	1064	1063	1062	1061	1060	1059	1058	1057	1056	1055	1054	1053	1052	1051	1050	1049	1048	1047	1046	1045	1044	1043	1042	1041	1040	1039	1038	1037	1036	1035	1034	1033	1032	1031	1030	1029	1028	1027	1026	1025	1024	1023	1022	1021	1020	1019	1018	1017	1016	1015	1014	1013	1012	1011	1010	1009	1008	1007	1006	1005	1004	1003	1002	1001	1000	999	998	997	996	995	994	993	992	991	990	989	9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JERSEY (STB RECOGNISED)

Money Market Bank Accounts

CURRENCIES, MONEY AND CAPITAL MARKETS

FOREIGN EXCHANGES

Dollar unmoved by data

THE DOLLAR did not react to yesterday's US economic data on leading indicators and factory orders, or to warnings from Mr. Manuel Johnson, Federal Reserve Board vice chairman, that inflation is too high. He said that although temporary factors have boosted inflation, there are also more fundamental factors at work.

A rise of 0.9 per cent in March US leading indicators reversed a fall of 1.9 per cent in February, while March factory orders rose 3.8 per cent, after falling 1.8 per cent in February. These reinforced recent indications of a recovery in US economic activity, but the dollar showed little reaction. Dealers are waiting for tomorrow's employment data and expectations of a sharp rise in job creation. Market forecasts suggest that non-farm payrolls rose 350,000 in April, against a gain of only 25,000 in March. If this proves correct, it will underline Mr. Johnson's remarks on inflation and increase speculation that the next move by the Fed will be to tighten its monetary stance.

At the London close the dollar showed small mixed changes, rising to DM1.6820 from DM1.6800; to FF5.6350; and to SF1.4550 from SF1.4545, but declined to Y158.30 from Y158.85.

The dollar's index fell to 88.3 from 88.4. Sterling remained resilient in spite of fears that the ruling UK Conservative Party will suffer large losses at today's local government elections. A bad result for the Conservative is already discounted in the pound's value, supporting the view that sterling may weather the storm if the Party does slightly better than opinion polls suggest. On the other hand, dealers believe there is limited room for improvement, with DM2.80 regarded as a strong resistance point.

Sterling finished 1.1 pence higher at DM2.7650 in London last night and also gained 30 points to \$1.6435. The pound rose to FF5.6350 from FF5.6250; and to SF1.4550 from SF1.4545. Its index advanced 0.2 to 87.1.

The D-Mark had a weak undertone on fears about the impact of German monetary union and the threat of growing labour unrest in West Germany. The metal workers' union called for further strikes after several factories were hit by industrial action on Monday. In Paris the D-Mark was fixed lower against the French franc, but improved slightly to FF3.3545 from FF3.3540 at the London close.

The Spanish peseta remained at the top of the European Monetary System, and the Italian lira was firm, around its upper divergence limit against the weaker members.

The Australian dollar rose to 75.35 US cents from 74.50 cents in London. The Reserve Bank of Australia sold Australian dollars against its US counterpart during morning trading in Sydney, but the local currency rose in the afternoon as the central bank stayed out of the market.

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EMS EUROPEAN CURRENCY UNIT RATES

	Unit	Rate	% change	% change	% change
Belgium	Franc	42.367	-0.02	-0.02	-0.02
France	Franc	6.5595	-0.01	-0.01	-0.01
Germany	Mark	1.936	-0.01	-0.01	-0.01
Italy	Lira	1,936	-0.01	-0.01	-0.01
Netherlands	Guilder	2.36	-0.01	-0.01	-0.01
Portugal	Escudo	200.48	-0.01	-0.01	-0.01
Spain	Peseta	166.64	-0.01	-0.01	-0.01
UK	Pound	1.936	-0.01	-0.01	-0.01
US	Dollar	1.936	-0.01	-0.01	-0.01

Changes are for EMS, therefore positive change denotes a weak currency. Adjustment calculated by Financial Times.

POUND SPOT-FORWARD AGAINST THE POUND

May 2	Day's	Close	One month	%	Three months	%
US	1.6820	1.6820	1.6820	0.00	1.6820	0.00
Canada	1.3100	1.3100	1.3100	0.00	1.3100	0.00
France	5.6350	5.6350	5.6350	0.00	5.6350	0.00
Germany	2.7650	2.7650	2.7650	0.00	2.7650	0.00
Italy	1.4550	1.4550	1.4550	0.00	1.4550	0.00
Netherlands	2.3600	2.3600	2.3600	0.00	2.3600	0.00
Portugal	200.48	200.48	200.48	0.00	200.48	0.00
Spain	166.64	166.64	166.64	0.00	166.64	0.00
UK	1.936	1.936	1.936	0.00	1.936	0.00
US	1.936	1.936	1.936	0.00	1.936	0.00

Forward premiums and discounts apply to the US dollar and the UK pound. Forward rates are for 12 months.

CURRENCY RATES

May 2	Bank	Spot	Forward	Forward
US	1.6820	1.6820	1.6820	1.6820
Canada	1.3100	1.3100	1.3100	1.3100
France	5.6350	5.6350	5.6350	5.6350
Germany	2.7650	2.7650	2.7650	2.7650
Italy	1.4550	1.4550	1.4550	1.4550
Netherlands	2.3600	2.3600	2.3600	2.3600
Portugal	200.48	200.48	200.48	200.48
Spain	166.64	166.64	166.64	166.64
UK	1.936	1.936	1.936	1.936
US	1.936	1.936	1.936	1.936

Forward premiums and discounts apply to the US dollar and the UK pound. Forward rates are for 12 months.

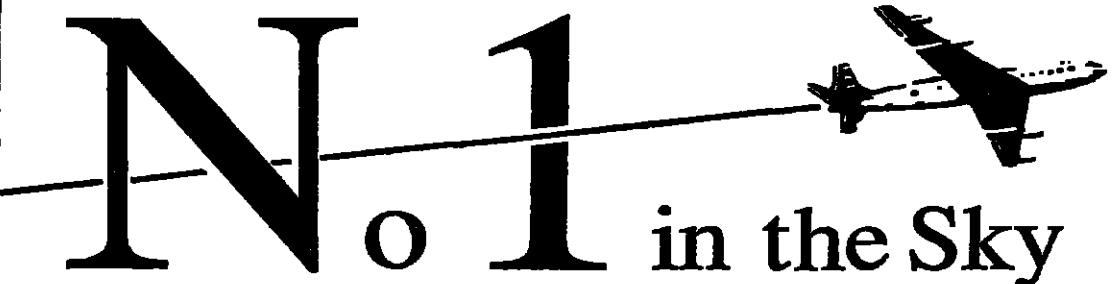
EURO-CURRENCY INTEREST RATES

May 2	Term	Rate	Term	Rate	Term	Rate
US	3 months	5.50	6 months	5.50	12 months	5.50
Canada	3 months	5.50	6 months	5.50	12 months	5.50
France	3 months	5.50	6 months	5.50	12 months	5.50
Germany	3 months	5.50	6 months	5.50	12 months	5.50
Italy	3 months	5.50	6 months	5.50	12 months	5.50
Netherlands	3 months	5.50	6 months	5.50	12 months	5.50
Portugal	3 months	5.50	6 months	5.50	12 months	5.50
Spain	3 months	5.50	6 months	5.50	12 months	5.50
UK	3 months	5.50	6 months	5.50	12 months	5.50
US	3 months	5.50	6 months	5.50	12 months	5.50

Long term Eurodollar rates: 90-91 9.50 per cent; 91-92 9.50 per cent; 92-93 9.50 per cent; 93-94 9.50 per cent; 94-95 9.50 per cent; 95-96 9.50 per cent; 96-97 9.50 per cent; 97-98 9.50 per cent; 98-99 9.50 per cent; 99-00 9.50 per cent; 00-01 9.50 per cent; 01-02 9.50 per cent; 02-03 9.50 per cent; 03-04 9.50 per cent; 04-05 9.50 per cent; 05-06 9.50 per cent; 06-07 9.50 per cent; 07-08 9.50 per cent; 08-09 9.50 per cent; 09-10 9.50 per cent; 10-11 9.50 per cent; 11-12 9.50 per cent; 12-13 9.50 per cent; 13-14 9.50 per cent; 14-15 9.50 per cent; 15-16 9.50 per cent; 16-17 9.50 per cent; 17-18 9.50 per cent; 18-19 9.50 per cent; 19-20 9.50 per cent; 20-21 9.50 per cent; 21-22 9.50 per cent; 22-23 9.50 per cent; 23-24 9.50 per cent; 24-25 9.50 per cent; 25-26 9.50 per cent; 26-27 9.50 per cent; 27-28 9.50 per cent; 28-29 9.50 per cent; 29-30 9.50 per cent; 30-31 9.50 per cent; 31-32 9.50 per cent; 32-33 9.50 per cent; 33-34 9.50 per cent; 34-35 9.50 per cent; 35-36 9.50 per cent; 36-37 9.50 per cent; 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65-66 9.50 per cent; 66-67 9.50 per cent; 67-68 9.50 per cent; 68-69 9.50 per cent; 69-70 9.50 per cent; 70-71

CANADA

No 1 in the Sky



Of European businessmen who take 6 or more international business airtrips per year, readership of the Financial Times is 65% greater than any other international English language publication.*

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*Source: European Businessmen Readership Survey 1989.

FINANCIAL TIMES
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**4pm prices
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FINANCIAL TIMES
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Interest rates overhang
Dow's hesitant recovery

Wall Street

IN SPITE of modest weakness in the Treasury bond market before next week's quarterly refunding, equities rallied, writes Janet Bush in New York.

The Dow Jones Industrial Average closed up 20.72 points at 2689.64 on moderate volume of 141.6m shares, building on an advance of 12.16 points on Tuesday and 11.71 on Monday.

Broader market indices rose roughly in line with the blue chips. The number of stocks rising outpaced those declining by 553 to 582.

So far this week, the Dow has moved higher in incremental steps in rather thin trading, a somewhat unconvincing performance given that it had been falling sharply and was widely regarded as being oversold. Nevertheless, the modest gains have come despite continuing price falls in the bond market.

One major reason for the anemic nature of the recovery this week is concern about next week's refunding at which the Treasury is expected to sell a record \$50.5bn to \$51bn of bonds against a background of uncertainty about interest rates.

The issue of rates is relevant both in the US and abroad.

Domestically, recent figures on economic activity and price

pressures have suggested that there is some justification for the US Federal Reserve to tighten monetary policy.

Internationally, there is talk of the possibility of a co-ordinated interest rate rise in Japan, West Germany and the US. The Group of Seven is scheduled to meet on Monday in Washington.

Yesterday's economic releases included a 0.9 per cent rise in US leading indicators in March, larger than the financial markets had expected. The Tan Book of reports on activity from regional Federal Reserve banks was also published.

The report concluded overall that the economy is expanding at a slow pace and that there has been some relief in the manufacturing sector although no serious price pressures.

The Treasury market was left weaker by these items but none provided clear justification for a move in interest rates.

Financial markets will now be looking at tomorrow's April employment release for further clues on economic activity.

Among featured stocks yesterday, American General, the fourth largest publicly owned insurance company, rose 7 1/4 to \$47.58 after putting itself on the block.

It expects to fetch more than \$7bn. Torchmark, its smaller rival which had earlier made but dropped a \$6.3bn, \$50 a

share bid, said it would make another offer.

Eastman Kodak added 3 1/4 to \$37 1/2 after it reported first quarter net income had fallen 6 per cent from a year earlier, roughly in line with forecasts.

Boeing added another 3 1/4 to \$72 1/2, continuing its sharp rise since it announced very good results on Monday.

PepsiCo, hit on Tuesday on news that Burger King is switching its allegiance to Coca-Cola, added 3 1/4 to \$66 1/2 after it announced that it was raising its quarterly dividend by 20 per cent to 30 cents a share.

Ames Department Stores rose 3 1/4 to \$2 1/4 after a federal bankruptcy judge gave interim approval for the retailer to get hold of \$28m.

Canada

FOR THE third consecutive session there was little movement in Toronto share prices which closed mixed in dull trading.

The composite index gained 6.21 to 3,340.34 but declines led advances 295 to 287. Volume was 21.31m shares compared with 16.5m shares.

Ten of the 14 sub-indices were higher including consumer and industrial products shares, mining issues and energy stocks. Golds dropped 1.56% and banking stocks were also lower.

Seoul suffers as confidence floods away

Many individual investors are utterly disillusioned with shares, writes John Ridding

SOUTH KOREA's stock market, which has been moving gradually downwards this year, has accelerated its decline to a frightening extent in the past two weeks.

After gains of 90 and 73 per cent in 1987 and 1988, Seoul's composite index has lost almost 90 per cent since its all-time high in April 1989; it has set two records for one-day falls within the last two weeks.

A crisis of confidence has been brought about by a series of economic and social concerns. The most immediate is the re-emergence of labour unrest, which has caused severe economic disruption in each of the last three years and raises fears of social tension.

Strikes at Hyundai Heavy Industries, Korea's largest shipbuilder, and Korea Research Institute, the state-run television and radio network, have prompted more widespread investor nervousness and police intervention.

The rise of inflation has also

sapped confidence. The consumer price index, which underestimates the real rate of inflation, rose by nearly 5 per cent in the first four months of this year, approaching the Government's annual target of 5 to 7 per cent and threatening double-digit rises for the year as a whole. The build-up in money supply, demonstrated by 23 per cent growth in M2 for the first quarter, threatens greater inflationary pressures.

At the same time, the diversion of funds into real estate speculation has both exacerbated inflation - through the increase in land and rental prices - and weakened the stock market through the outflow of funds.

There are still bulls of the economy and the market. The Bank of Korea is forecasting 7 per cent real GNP growth for the current year. "All of the indices are showing improvement," says Mr Don Lee of Seangyong Securities, "and I am frustrated by investors' lack of confidence."

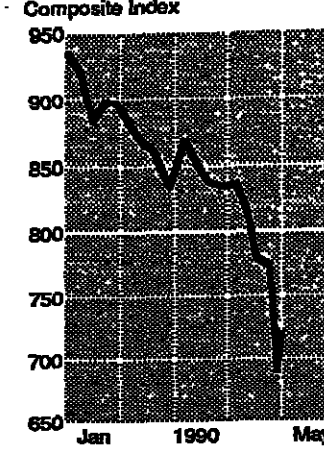
But even if the problems have been overstated, this does not imply a stock market recovery. "Investors have been badly burned," says one analyst at a foreign securities company, "they just want to get out." An additional problem is that many individual Korean investors have never previously experienced sharp falls and have become disillusioned altogether with the idea of investing in shares.

Pressure from investors and fears of complete collapse have prompted the Government to take action. On Tuesday, it announced a series of measures to curb real estate speculation, including forced sales of surplus land holdings by business conglomerates, particularly insurance and securities companies, and a number of anti-inflationary steps. The aim was to prevent a further flow of funds into land speculation and to generate resources for institutional investors.

The immediate response was impressive. The market gained

S. Korea

Composite Index



more than 4 per cent and rose through the psychological 700 point barrier.

But analysts doubt that it will stay there. "Fundamental sentiment remains weak," says Mr Alistair Staddon of Baring

Securities. "We think the market is likely to go down again." Most other securities companies agree, with the consensus being for a trading range of between 600 and 650 in the medium term. Yesterday, however, the market was forced to take a breather for a holiday.

For the first time, foreigners must be celebrating the fact that the market will remain closed to them until 1992. But those who invested in the various convertible bonds, bonds with warrants, unit trusts and closed-end funds which are traded on the euromarkets have also suffered. The Korea Europe Fund has seen prices decline by more than 50 per cent in the last seven months.

Possibly the greatest victims, however, have been Korean stockbrokers. A wave of protests, in which securities offices have come under violent attack from angry investors, must have prompted many of their employees to consider safer employment - perhaps in the fire brigade.

ASIA PACIFIC

Nikkei clears 30,000 in sandwich session

Tokyo

CURRENCY stability and expectations of future strength in equities encouraged broad-based buying yesterday, and share prices advanced above 30,000 for the first time since early last month, writes Michio Nakamoto in Tokyo.

The Nikkei average rose steadily, closing at its high of 30,173.64, a gain of 482.81, against a low of 29,736.03. Winners far outnumbered losers at 773 to 323 with 130 unchanged, and turnover doubled to 490m shares. The Toxip index of all listed stocks gained 33.03 to 2,247.81 and, in London, the ISE/Nikkei 50 index fell 0.96 to 1,726.23.

Yesterday was the second of the two trading sessions sandwiched between the long weekend that make up the Golden Week holidays. Activity was still relatively thin, as many investors were away on holiday. But the market was inclined to remain cautious.

None the less, a stable currency market and rises in the futures market attracted some investors. Observers suggested that a substantial amount of the buying yesterday was by professional investors, who tended to try to pass on their purchases to clients when trading resumes next week.

There was renewed interest in company news, with several issues being pursued on the strength of product developments. Furukawa Electric, for example, saw a surge in activity and rose Y44 to Y855 on reports that it had developed a new superconductive electricity storage system. Tokyo Electric Power was pursued because of its storage device which also uses superconductivity. It added Y30 to Y420.

Osaka Gas, the utility company, advanced Y26 to Y690 after its development of a fibric cable for power transmission holds electricity.

Elsewhere, Nippon Mining fell on profit-taking, losing Y10 to Y980. Interest in the oil sector

SOUTH AFRICA

DE BEERS dominated Johannesburg after disclosing details of its offshore arm, De Beers Centenary AG. The stock Power 200, however, ending R5.35 up at R58.88. The overall index rose 25 to 3,057.

has followed talk of Middle Eastern interest in acquiring a Japanese refinery.

Large-capital issues led a strong rise in Osaka, taking the OSE average up 34.50 to 22,491.19. Turnover almost doubled to 46.8m shares from 24.8m on Tuesday.

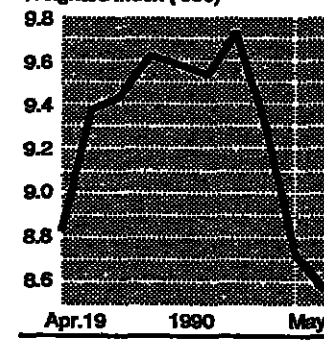
Roundup

THE PACIFIC Rim was mixed, with Taiwan falling further while the antipodean markets rallied after recent losses.

TAIWAN fell for the fourth day in a row in spite of buying efforts by brokers. The weighted index had lost 450 points shortly before the close but recovered to finish 100.39 lower at 8,574.54, the lowest close for the year. Volume eased to 1.46m shares valued at NT\$181.17bn from Tuesday's 1.18bn shares valued at NT\$97.15bn. Uncertainty over the cabinet reshuffle and Chinese criticism of Taiwan's support for a radio ship planning to beam pro-democracy messages to China continued to cloud the market.

Taiwan

Weighted index ('000)



AUSTRALIA rose for the second day in a row thanks to bargain-hunting by local and overseas investors in a short-lived recovery in Eilers IXL shares. The All Ordinaries index rose 22.1 to 1,462.7. Turnover was steady at 78m shares valued at A\$170m, after Tuesday's 78m shares valued at A\$170m.

Eilers IXL rose 7 cents to A\$1.82 as concerns about the financial health of its parent,

Harlin Holdings, receded. BHP, which has an investment in Harlin, recovered 16 cents to A\$8.10.

NEW ZEALAND was encouraged by Australia's gains and ended higher on offshore buying of leading stocks. But sentiment was dented by a steep plunge in the share price of TVS Network, the country's first private television network, after news that it asked its bank to appoint a receiver. TVS, floated only last November at NZ\$2.50 a share, fell 53 cents to 10 cents.

The Barclays index rose 8.21 to 1,693.12 and turnover jumped to 9.8m shares valued at NZ\$20.0m from Tuesday's 4.8m shares valued at NZ\$5.3m.

HONG KONG rose on bargain-hunting after four days of losses. The Hang Seng index gained 12.58 to 2,967.76. Turnover improved to HK\$311m from HK\$270m on Tuesday. Banking issues showed the steepest gains, followed by properties, commercial and industrial shares.

MANILA overcame initial weakness to close higher after

nine days of declines. But dealers said that the floor tone was only a technical bounce, considering the market had lost almost 15 per cent since April 18. The composite index rose 25.51 to 983.08, up 2.83 per cent from Monday.

SINGAPORE concentrated on takeover target Singapore Land and its unit, United Industrial Corp (UIC), the two most actively traded stocks.

UIC and Singapore Land registered volumes of 8.44m shares and 5.52m shares respectively, mainly due to large block transactions. UIC closed 2 cents higher at S\$2.42 while Singapore Land added 20 cents to S\$14.80. UIC has been buying shares in its target at less than its offered price of S\$15 a share, bringing its stake to about 30.5 per cent. But speculation abounded that Singapore Land and its allies might try to get control of UIC.

The Straits Times index slipped 0.22 to 1,458.18.

KUALA LUMPUR saw some bargain-hunting but ended lower. The composite index fell 2.04 to 516.53.

EUROPE

DAF hampers Amsterdam
as most bourses advance

DISAPPOINTING earnings tipped the Netherlands lower, with DAF leading the declines. Although other leading bourses made healthy rises, volumes remained thin, writes Our Markets Staff, Madrid is shut for a holiday.

AMSTERDAM saw DAF plummet to lows of F126.20 in active trading before edging up to close F130, or 16 per cent, lower at F126. DAF's warning that it would make a loss in the first half of 1990 cast a cloud over the whole market.

"There have been so many disappointing earnings in Holland that there is little reason for the market to take off," said one salesman. The CBS Tendency index fell 0.2 to 115.8.

DSM, which reported a smaller-than-expected drop in first quarter earnings because of lower taxes and an extraordinary gain, fell to F120.10 before closing 30 cents higher at F113.70. Hollandse Beton Groep, the builder which said in its annual report that an expected tax burden would offset encouraging prospects for pre-tax earnings, eased F1.50 to F1.20.

Retailer Abold was 10 cents lower at F128.70 after saying it expected 1990 net profits to be substantially higher. Philips, due to announce first quarter results today, eased 30 cents to F137.20.

FRANKFURT rose as domestic traders decided that it was time to take stock on to their books after an improvement in Tokyo, and in anticipation of interest from Japanese investors once the Golden Week holiday is over. The DAX index closed 30.16, or 1.7 per cent, higher at 1,843.41 after a rise of 9.26, or 1.3 per cent, to 1,776.15 in the FAZ at mid-session.

Volume stayed relatively light at DM4.5m, although it recovered from the DM3.7m low for the year which it

touched on Monday. Equities chose to ignore the continuing deterioration in the bond market, where the Bundesbank's average bond yield rose two basis points to 9.05 per cent.

Equities saw their big rises in speculative, or more volatile situations such as Continental, up DM16.50 to DM203.50, and A & M, DM35 better at DM785.

Carthage rose DM7 to DM189 and Nixdorf DM12 to DM348.50.

Institutional stocks saw Daimler and Deutsche Bank in particular favour, rising DM19.50 to DM84.2 and DM20.50 to DM78. Daimler was talking about higher truck volume this year as the Hannover trade fair opened yesterday; cars and financials have been relatively weak sectors of the market in the past month or so; and front-line international stocks

are being bought by foreign investors' buying lists if they come back to German stocks soon.

PARIS rose quite strongly after a stuttering start, but volume remained thin as many investors extended their May holiday. The strong finish in West Germany and the steadiness of domestic bonds encouraged the French market in the absence of corporate news, and the CAC 40 index finished near its day's high, rising 18.57 to 2,065.02.

Turnover was about FF2.2bn worth of shares, up from Monday's very thin FF1.4bn.

Peugeot had a good day, rising FF27 to FF887 with 135,750 shares traded; the gain was put down to bargain-hunting. Elf Aquitaine, the oil group, gained FF6 to FF668 in relatively busy trade after the emergency Opec meeting.

SURINCE featured Nestle and Surveillance, the food company, on good 1990 prospects and cancelled rights issue plans, and the quality control group

on the liberalisation of its capital structure.

Nestle bearers rose SF7150 to SF78,400, while Surveillance saw its certificates fall SF740 to SF74,550 as its restricted shares gained SF7450 to SF75,650. The Credit Suisse index rose 3.1 to 580.3.

MILAN was narrowly mixed in thin trading after Tuesday's holiday, as few investors were willing to enter the market before Sunday's local elections.

Telecommunications issue Stet, which had been heavily sold by London investors in recent weeks, jumped L100 to L5,580. "Stet has been oversold about higher truck volume this year as the Hannover trade fair opened yesterday; cars and financials have been relatively weak sectors of the market in the past month or so; and front-line international stocks

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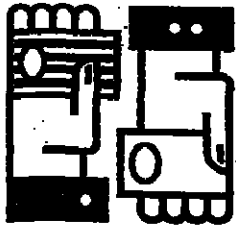
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FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Limited, Goldman, Sachs & Co., and County NatWest/Wood Mackenzie in conjunction with the Institute of Actuaries and the Faculty of Actuaries

NATIONAL AND REGIONAL MARKETS	WEDNESDAY MAY 2 1990					TUESDAY MAY 1 1990					DOLLAR INDEX		
	US Dollar Index	Day's Change %	Pound Sterling Index	Local Currency Index	Day's change % local currency	Gross Div. Yield	US Dollar Index	Pound Sterling Index	Local Currency Index		1990 High	1990 Low	Year ago (approx)
Figures in parentheses show number of stocks per grouping													
Australia (81)	128.94	+2.5	116.31	114.01	+1.7	6.08	125.85	113.73	112.18	158.31	125.85	128.55	196.55
Austria (19)	246.93	+0.6	222.78	218.02	+0.4	1.23	248.31	224.41	216.91	286.63	246.93	193.15	122.89
Belgium (61)	146.92	+0.2	132.54	125.90	+0.5	4.68	146.92	127.47	125.25	160.02	146.92	133.17	118.06
Canada (120)	130.81	+0.2	118.01	110.69	+0.4	3.60	131.80	110.59	108.71	163.11	130.81	121.11	118.06
Denmark (34)	242.37	+0.8	218.64	210.67	+0.9	0.99	240.40	217.26	208.09	260.82	242.37	180.32	138.32
Finland (28)	131.92	+0.8	118.47	109.57	+0.7	2.49	132.32	119.58	110.31	152.29	131.92	129.94	152.94
France (125)	182.74	+0.6	146.80	144.04	+0.7	2.02	181.83	148.26	143.05	186.43	182.74	141.69	118.06
West Germany (83)	129.14	+1.2	116.48	112.92	+1.3	1.95	129.14	117.10	115.61	148.47	129.14	121.11	118.06
Hong Kong (46)	122.53	+0.5	110.53	122.54	+0.5	0.58	121.95	110.21	121.87	126.90	122.53	112.24	133.31
Ireland (17)	122.72	+0.3	155.81	152.63	+0.3	2.82	173.32	156.63	158.06	136.57	122.72	147.65	147.65
Italy (95)	99.58	+0.2	89.83	81.66	+0.0	2.90	99.73	90.15	91.70	103.73	91.65	81.61	81.61
Japan (454)	138.22	+1.8	124.69	138.21	+1.5	0.74	138.74	122.57	121.60	163.61	138.22	124.69	138.22
Malaysia (35)	204.15	+0.8	184.17	213.27	+0.8	2.54	205.48	185.70	214.80	242.02	204.15	180.70	180.70
Mexico (13)	408.50	+0.1	368.70	367.11	+0.0	0.41	408.88	367.70	367.11	415.22	408.50	367.11	367.11
Netherlands (43)	136.17	+0.5	122.94	117.56	+0.6	4.78	135.56	122.51	116.88	146.66	130.43	143.03	143.03
New Zealand (17)	60.25	+1.1	54.35	58.03	+0.8	7.52	60.59	58.59	58.59	75.59	60.25	58.59	58.59
Norway (23)	229.34	+0.9	209.34	199.34	+1.9	1.56	220.07	198.89	198.89	248.89	229.34	198.89	198.89
Singapore (25)	181.96	+0.4	164.15	157.14	+0.4	1.92	181.21	163.77	156.58	193.38	178.70	157.48	157.48
South Africa (26)	177.29	+0.6	159.94	157.21	+0.6	3.75	176.31	159.34	158.34	251.39	177.29	138.42	138.42
Spain (42)	162.05	+0.3	137.17	122.05	+0.2	4.45	161.61	137.01	121.80	165.19	162.05	132.84	132.84
Sweden (16)	163.94	+0.7	167.77	165.50	+0.2	2.40	166.58	167.77	167.77	206.58	163.94	157.88	157.88
Switzerland (65)	90.43	+0.7	81.57	81.57	+0.8	2.56	89.78	81.14	80.96	89.12	88.75	73.41	73.41
United Kingdom (308)	142.24	+1.0	126.32	126.32	+0.8	6.15	140.84	127.29	127.29	164.31	138.67	146.97	146.97
USA (537)	135.22	+0.7	121.96	136.22	+0.7	3.84	134.93	121.42	124.74	184.35	140.40	130.61	126.48
Europe (865)	137.29	+0.8	126.85	121.23	+0.7	3.68	136.27	123.15	120.53	146.86	135.57	119.44	119.44
Nordic (118)	186.71	+0.8	168.43	159.19	+0.6	1.75	185.59	167.73	158.17	201.89	186.71	161.41	161.41
Pacific Basin (800)	137.20	+1.8	123.76	136.56	+1.4	0.93	134.07	121.60	134.82	192.75	124.63	185.16	185.16
Asia (124)	124.78	+0.9	104.85	104.85	+0.9	2.94	124.78	104.85	104.85	134.78	124.78	104.85	104.85
North America (857)	136.20	+0.6	121.66	130.50	+0.6	3.84	134.03	121.13	132.75	146.78	131.02	126.00	126.00
Europe Ex. UK (679)	132.29	+0.6	118.35	118.37	+0.7	2.81	131.51	118.75	115.45	138.21	124.21	121.32	121.32
Pacific Ex. Japan (206)	124.21	+1.4	112.12	113.47	+1.0	5.33	122.53	110.74	112.34	139.32	122.53	109.00	109.00
Asia Ex. Japan (163)	124.05	+1.0	103.70	103.70	+1.0	3.72	124.05	103.70	103.70	134.05	124.05	103.70	103.70
World Ex. UK (2069)	135.29	+1.1	120.04	132.54	+1.0	2.37	133.61	120.93	131.25	162.00	130.80	108.06	108.06
World Ex. So. Af. (2315)	135.64	+1.1	122.36	131.91	+1.0	2.92	134.17	121.28	130.65	161.84	131.58	107.68	107.68
World Ex. Japan (1921)	136.04	+0.7	122.72	128.06	+0.7	3.71	135.09	122.09	128.18	145.52	134.62	123.95	123.95
The World Index (2375)	135.89	+1.1	122.59	132.00	+1.0	2.83	134.43	121.40	130.63	162.05	132.25	145.22	145.22

FINANCIAL TIMES SURVEY



British pension funds have been fattened up by a decade in which the average annual return on

investments far outstripped average inflation of 6.9 per cent. Barry Riley analyses the success of strategies during the 1980s and asks: Can it possibly last?

From pluses to minuses

PENSION FUND trustees looking at their quarterly investment returns for the first three months of 1990 will find that the report features something that for more than a decade has come to seem quite unusual: a minus sign.

However, such trustees will have taken on board that individual quarterly returns are not to be taken very seriously. Moreover, British pension funds have been fattened up by one of the best years for investment ever known. The typical return was a little over 30 per cent in 1989, crowning what turned out to be a brilliant decade of the 1980s.

Over the 10 years, the average annual return was about 19.5 per cent, which compared handsomely with average inflation of 6.9 per cent and an average annual increase in pay of 9.5 per cent (the latter being the closest thing to a target return for the normal pension fund with benefits linked to final salaries).

A 10 per cent margin over earnings growth is astonishing on the basis of historical experience. In the 1970s pension fund investment returns underperformed pay inflation by about 6 per cent a year, which left pension schemes in

something of a financial mess.

Figures compiled by the WM Company, which has operated a performance measurement service since the mid-1970s, show that in 1980 the new money flowing into pension funds amounted to 19 per cent of their initial value, highlighting the large size of contributions by companies as they struggled to keep their battered schemes afloat. By 1989 it was only 5 per cent, corresponding roughly to investment income. Many companies have declared extended contribution holidays for themselves, which is a tribute to the success of investment strategies during the 1980s.

But can it possibly last? The real return (gross dividend plus capital gains minus inflation) on UK equities was 6 per cent in the 1980s, minus 1 per cent in the 1970s and 13 per cent in the 1960s. That is a highly erratic sequence.

The consulting actuaries who value pension schemes are faced with difficult decisions. If they recommend contribution levels based upon very long-term rates of return they will be accused by companies (and the Inland Revenue) of living in the past and encouraging excessive fund growth.

If, on the other hand, they assume that recent high rates of return will continue through the 1990s there could be a nasty crunch if future investment conditions turn out to be more typical of those experienced in the more distant past.

Recent performance has not, however, been merely a question of living off the fat of the land. Investment managers will claim, with some justice, that they have added value to the returns from the underlying markets. Back in 1979, for instance, sterling bonds (mainly gilt-edged) accounted for 29 per cent of the average pension fund, and UK property for another 19 per cent according to WM. These turned out to produce relatively poor real returns in the 1980s of about 8 and 4 per cent respectively.

But by the end of the decade gilts comprised only 6 per cent of portfolios and property some 9 per cent. Indeed, the rival Caps measurement service, which concentrates on

schemes managed externally by aggressive investment management firms, showed only 4 per cent in fixed income gilts and 2 per cent in property at the close of 1989.

Still, there is scope for arguing about the extent to which such trends were active or passive. The drop in the proportion of gilts, for instance, reflected in part the decision of the UK Government to buy back its bonds on a massive

scale. Property has been bid away by the corporate sector and international investors. But it is approaching a fascinating turning point, with vast volumes of bank-financed developments beginning to overhang the market. The institutions, including pension funds, will surely become big investors when they judge the buying opportunity has arrived.

Meantime, fund managers have successfully chased the consistently higher returns available from equities, both in the UK and overseas. UK equity exposure rose from 48 to 83 per cent over the decade, according to WM, and the overseas equity content, limited by exchange controls up to 1979, rose more dramatically from 7 to 21 per cent.

Indeed, the typical externally-managed fund seems to have had a total equity content of about 83 per cent at the end of 1989, and if you include index-linked gilts and property, the total proportion in "real" assets was close to 90 per cent. That is rather different from the position in the US where pension funds are run more conservatively. According to a recent survey by consultants Greenwich Associates of the 2,100 largest pension funds and endowments in America, worth \$1,800bn, equities accounted for some 48 per cent of the value of portfolios, and bonds represented more than a third.

Inflation has been lower in the US, and there is a greater proportion of defined contribution plans (money purchase in UK parlance) rather than defined benefit schemes with a final salary link. But US pension plans have been especially slow to diversify their investments internationally, and it looks as though British pension funds have secured much better returns in the 1980s.

The move overseas has not been accomplished with complete conviction, however. Shortcomings in the ability of London investment managers to handle global portfolios have been revealed, especially in their capacity to keep up with the stock market indices in Japan, the US and elsewhere.

During the 1980s, according to WM, UK pension portfolios underperformed the US market by 2.6 per cent a year and the Tokyo market by 2.5 per cent a year. But in the UK market the picture was much better:

against an index return of 23.6 per cent a year, pension funds recorded 22.3 per cent, which is the kind of gap to be expected given that real funds bear costs which an index does not have to.

As it happened, 1989 was a good year for UK pension funds overseas, largely because of favourable stock selection in Japan. All the same, the general failure, in the longer run, of conventional balanced investment managers to beat the stock market indices either at home or abroad has provided a powerful marketing pitch for index fund promoters.

As a consequence there is an increasing interest by pension schemes in the establishment of core index portfolios, usually supplemented by specialist satellite portfolios which are intended to beat certain specific benchmarks. Specialist managers are required to work within much stricter guidelines than balanced managers.

There sometimes appears to be much more talk about such strategies than there is action. But something like 8 per cent of UK pension fund money may now be invested in formally indexed funds (with a further small proportion in less rigorously constructed core portfolios). About 2 or 3 per cent of funds also have specialist managers, which does not seem much, but there is a lot of marketing activity in this area.

The 90 per cent of money which is still in the hands of balanced managers could be quite rapidly eroded if the pattern of the US pensions industry is repeated. In the US more than \$250bn of pension plan money is now indexed, some of it in the fixed income market as well as in equities. Indexed equity assets account for about a fifth of the portfolios of the top 200 defined benefit plans in the US, and getting on for half of their equity investments.

Indexing has been greatly encouraged by the conditions of the 1980s. When markets are buoyant it is very difficult for active managers to beat the indices, and any UK pension fund which had put the whole of its money into an equity index fund 10 years ago would have handsomely outperformed all its peers.

This could have been only a theoretical exercise for the 1980s, because index funds scarcely existed a decade ago, but it is an option for the 1990s. However, it is dangerous to extrapolate from past experience. Balanced managers can use skills such as market timing and allocation between different kinds of assets. These talents will offer the only way of making money if the returns on the equity indices continue to show minus signs for any length of time.

Pension Fund Investment

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Illustration: Mark Thomas
Editorial production: Roy Terry

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PENSION FUND INVESTMENT 2

Leading pension fund managers

	Value of segregated funds at December 31			Number of pension fund clients		
	1989 (£m)	1988 (£m)	% change	1989	1988	% change
MERCURY ASSET MANAGEMENT	23,616	17,754	49.9	530	553	4.8
PHILLIPS & DREW FUND MGMT**	14,242	10,820	34.1	186	186	5.9
BARCLAYS DE ZOEETE WEED INV MNGT	13,600	9,600	41.7	129	118	8.1
SCHRODER INVESTMENT MNGT**	11,800	8,700	36.6	133	130	2.3
COUNTY NATWEST INVEST MNGT***	9,484	7,840	20.7	106	122	-13.1
ROBERT FLEMING ASSET MNGT	9,295	8,240	12.6	143	147	-3.4
PRUDENTIAL PORTFOLIO MANAGERS†	9,100	6,100	49.2	58	39	43.6
MORGAN GRENELL INVEST MNGT	6,453	5,248	23.1	96	98	-2.0
HENDERSON PENSION FUND MNGT††	5,464	4,917	11.1	168	195	-13.8
BARING INVEST MNGT	5,229	4,264	22.6	116	109	6.4
GARTMORE INVESTMENT MNGT	4,447	2,700	64.7	114	105	8.6
LYONDS INVESTMENT MNGT*	4,333	3,788	14.4	54	51	5.9
MIM	3,385	2,616	28.6	132	125	5.6
MIDLAND MONTAGU ASSET MNGT**	3,121	2,396	30.3	9	12	-25.0
N.M.ROTHSCHILD ASSET MNGT	2,700	2,000	35.0	75	81	-7.4
MURRAY JOHNSTONE PENSION MNGT	2,686	2,100	28.9	55	57	-3.5
KLEINWORT BENSON INVEST MNGT*	2,641	2,324	13.6	68	74	-8.1
CAZENOVE FUND MANAGEMENT	2,630	1,770	48.6	60	59	1.7
HAMBROS BANK***	2,500	2,000	25.0	48	48	0.0
QUEEN ANNE'S GATE ASSET MNGT*	2,300	1,800	27.7	9	1	NA
LAZARD INVESTORS**	2,000	1,800	11.1	36	34	5.9
CAPITAL HOUSE INVESTMENT MNGT	1,880	1,500	25.3	50	46	8.7
EAGLE STAR	1,784	1,486	19.7	23	22	4.5
HILL SAMUEL INVESTMENT MNGT***	1,617	1,505	7.4	36	33	9.1
BAILLIE GIFFORD & CO INVEST MNGT	1,576	1,042	51.3	38	35	8.6

Research by Jan Schilling

* Total funds managed by group, including non-pension funds
 ** 1988 data changed by the fund manager
 *** Of the net 16 clients lost, a total of five did not meet minimum fund size requirements
 † Includes Prudential Staff Pension Fund
 †† These figures exclude the Henderson Pensions Managed Fund which is valued at £77m and has 44 clients
 ‡ In September 1989 restructured as an investment management company to manage pension funds of the former Water Authorities; prior to September 1989, Queen Anne's Gate managed £1.5bn of the Water Authorities' superannuation fund; percentage increase in number of clients is therefore not applicable.

Barry Riley analyses the criteria for selecting managers

League tables may be relegated



Patrick Gifford (left) and Tim Gardener



Percy, resigned after disagreements with his bosses at Union Bank of Switzerland. Ironically, he will shortly take up the position of chief executive of Morgan Grenfell Asset Management, swapping a Swiss owner for a German one.

Change in corporate control is a particular hazard in a "people" business such as fund management. At the smaller end of the size league, Jey & Sims, once the leading pension fund "boutique", but recently a sadly faded force in this field, has suffered yet another exodus of managers, while Globe Morley is caught up in the bid by the British Coal pension funds for its parent Globe Investment Trust.



Paul Haines

The major City merchant banks used to offer a safe, traditional balanced management service but although Mercury Asset Management has continued to be an impressive flag bearer for this type of operation, a number of the smaller merchant banks such as Kleinwort, Rothschild, Hambros and Lazard have been going through a generally difficult time in pension fund management. Business used to be won through personal contacts with company bosses, but nowadays the selection process is open and competitive, which has weakened the advantages of merchant banks.

There has been much more success, however, at Schroders which is one of the very few long-established merchant banks to have achieved top quartile performance over 10 years. Investment strong showing has been achieved by Barings while Robert Fleming remains

In 1989, some of the best investment performances were in fact produced by the smaller "boutiques" such as Martin Currie, Newton and Fidelity (the latter is, of course, big in unit trusts but is still not in the top 25 in terms of volume of segregated funds under management). Last year paid off handsomely for managers like Fidelity who were heavily (as much as 96 per cent) into equities and within that were highly committed overseas. But these high-risk strategies could conceivably cause the boutiques in more difficult circumstances, unless they prove to be very nimble-footed.

In any case, the consultants who advise trustees on manager selection are becoming more cautious about becoming involved in a pure numbers game. According to Paul Haines of Noble Lowndes: "It is an assessment of management is based solely on league tables then it is inevitable that you will end up appointing managers who will turn out to be disappointing."

On the other hand, he adds, taking a cautious line on the relevance of past performance "is not the same as saying there is no correlation". Tim Gardener, head of the investment section of Mercer Fraser, has mapped out what is claimed to be a fresh approach to manager research. This is queried by other consultants, who say they have always paid attention to a variety of factors in assessing managers. However, Mr Gardener insists there is a need to "try and learn from the mistakes that were made in the 1980s".

In future, Mercer Fraser will be placing more emphasis on a whole variety of factors including quality of personnel, internal management and philosophical approach. But he admits: "We are only going to get seven or eight out of 10 of our decisions right."

If the consultants seem what they say, in the 1990s the top quartile of the performance league tables may no longer be such an important target for managers to aim at.

What may work with a restricted team of people, may fail when large volumes of new business are taken on

big, although it has been going through a bad patch not helped by the fact that last year was bad for managers adopting its style of value-based stock selection in UK equities.

Prudential remains the only life assurance company to make a strong showing in segregated pension funds. It retains a good five-year performance, and clients are impressed by the breadth of its research-based investment expertise. Elsewhere Scottish Widows has now passed the £1bn mark in segregated funds, and Scottish Amicable remains important, although it had a difficult time last year, partly because of its small company orientation in stock selection.

The clearing banks are making an impression in index funds and other quantitative products, but they do not really stand out in active management.

But its chairman, Keith

"PAST performance has no relevance in identifying future performance."

With this conclusion, which was based upon 50 investment management companies' house returns going back a decade, the consultancy firm Mercer Fraser recently tossed a bombshell into the manager selection process.

It is not the only pensions consultancy to have become embarrassed at the excessive emphasis upon league tables of short-term performance. It has become almost impossible for managers to win new mandates without an impressive performance over the previous two or three years.

Conversely, managers with a poor recent performance almost never pick up new business, and may well lose a lot of what they already have on their books.

Maxwell Fraser is not saying, of course, that all investment managers are likely to perform equally in the long run. But there is a cyclical element to the performance of many firms, so that after a bad patch they are quite likely to bounce back. It could be wrong to sack them at the bottom, as in fact often happens.

A subtle problem is that success can easily lead to problems because good performance is unlikely to be repeatable across ever-larger funds. What may work on a small scale, with a restricted team of people, may fail when large volumes of new business are taken on.

In the US some pension fund managers have the self-re-

straint to close their books to new business when they feel they are at full capacity, perhaps raising fees to compensate for the opportunity cost.

But in the UK it seems to be very hard to prevent the marketing director from making the most of his opportunity.

In the UK a lot of new pension fund business was taken on by managers such as Robert Fleming and Henderson in the mid-1980s. Both are long-established, high quality houses. But many of their new clients (and some of their old ones) have been disappointed by their results in the late 1980s. These managers have been losing business again on a significant scale.

According to Patrick Gifford, chairman of Fleming International Investment Management: "We used a very good

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PENSION FUND INVESTMENT 3

For British investors, 1989 was the year of the European equity, says Nick Bunker

Germany the star performer

FOR BRITISH fund managers, 1989 was, or at any rate should have been, the year of the European equity. Not only did the pound drop in the course of the 12 months by nearly 18 per cent against the D-Mark, and by only slightly less against the French franc, this was also happening at a time of strong corporate earnings increases in both those countries, against a background of Western European economic growth outstripping that of the US for the first time since 1982.

The result was the remarkable 53.1 per cent median investment return UK pension funds earned on European equities last year, according to Combined Actuarial Performance Service (CAPS).

Nor was this simply a function of the upward spurt in German equities seen after the fall of the Berlin Wall last November.

On the basis of market indices, rather than the CAPS universe of pension funds, European equities in general showed a 41.7 per cent return for the year as a whole. Within that, West Germany was indeed the star performer, with a return to sterling investors of 60.8 per cent; but the French equity market ran it pretty close, with a return of 55.9 per cent.

When the effect of this was combined with the strong performance of US equities last year, and the 23.4 per cent return on Japanese shares, the result was to make overseas equities in general the second-best performing asset category in 1989.

So, at first sight it looks unfortunate that UK pension funds went into 1989 with only 19 per cent of their money invested in overseas assets. This was the second lowest proportion since 1985, and still a reflection of the switch many funds made out of overseas securities after the 1987 crash.

By the end of last year, though, the picture had altered dramatically. Overseas assets have climbed to 27 per cent of the average portfolio measured by CAPS.

The result was especially striking for the exposure of UK pension funds to European shares. At the start of last year, on average only 5 per cent of their assets were allocated to European equities. By December 31, the proportion had doubled.

Typically, pension fund managers put little new money into UK straight or index-linked gilts in 1989, and went light in Japanese equities, diverting their new cash flow more towards the European markets.

According to figures from the WM Company almost 50 per cent of cash flow was allocated to continental Europe. Most striking of all, that means, according to CAPS, that by the end of the year "the continental European market (had) become the main area of overseas investment for UK pension funds", ahead of both the US and Japan.

So much is history. What is much less clear is the appropriate strategy over the next 12 months - especially in respect of Japanese equities, where the average UK pension asset allocation is about five per cent.

As regards Japan, the Japanese question looks to be the most pressing, after the near 10,000-point, or 24 per cent, fall in the Nikkei stock average between January and late April.

This followed 12 years in which the Japanese stock market had risen continuously. Was this simply a long overdue correction, of a market which at the beginning of 1990 was trading on a p/e of 60? Or was it saying something more sinister about the prospects for investment in Japan in the coming decade?

The bull case for Japanese shares is that GNP is still forecast to go up by 4 per cent in 1990; and that while the money

supply is growing at more than 8.75 per cent, inflation remains manageable, not least because capacity utilisation is falling following the booming capital investment of the last few years.

There is a convincing bear case, however. Not only has the yen become one of the developed world's weakest currencies. It looks very much as though the conjunction of factors which underpinned the long bull market - the strong yen, falling oil prices, steadily declining interest rates and minimal inflation - is ceasing to apply. Not that this makes Japan a bad place to invest in equities in 1990, just a more normal one.

US equities - home for about 6 per cent of UK pension fund assets, according to the CAPS survey - is a less urgent matter in 1990. True, apart from encouraging news recently from IBM, there are signs of flat corporate earnings growth this year, coming after 16 quarters of consecutive increases from 1986 onwards.

Given high and rising short-term interest rates in West Germany in particular, it is hard to see the authorities in the US easing monetary policy soon.

This means - barring a precipitate collapse in sterling -

it is also hard to see US stocks achieving again the 45.4 per cent median return they showed for UK pension funds in 1989.

But in view of the importance it has come to occupy for UK fund managers, the destiny of Europe is crucial. Centrally, by late April the West German market had retreated significantly from the peaks of valuation it saw in late March, when the FAZ Index had reached 830.9 points, or 35 per cent above its level before the Berlin Wall came down.

But that still leaves German equities looking exposed to further corrections, if the D-Mark bond market were to collapse again through the 9 per cent yield barrier as a result of concerns about the inflationary potential of reunification. At bottom, though, it is hard not to see European equities as the most attractive investment prospect for 1990, given that GNP growth Europe-wide is likely to be average about 3 per cent this year.

In some markets - France especially - there is also the prospect of stronger near-term earnings growth than in 1989, and of increasing mergers and acquisition activity.

UK EQUITIES

Striking sign of commitment

IF THE CITY needed an unequivocal sign of the importance pension fund managers give to UK ordinary shares, it received an unmistakable one on Friday, April 20.

The £1.05bn offer by the British Coal funds for Globe Investment Trust was not just another takeover bid. At a time when the stock market is still looking shaky, after dropping 10 per cent since January 1, the bid also comes as a striking reminder of just how strong a commitment pension funds now have to UK equities. The critical question for other investment managers though is whether British Coal has its timing right in putting such a large chunk of money into the market when the UK is still beset by so many macro-economic and political uncertainties. And some may argue, too, that UK equities are unlikely to show as strong a relative performance as they have done since 1973.

What is indisputable is the scale of the long-term benefits funds have reaped from UK equity investment in the 1980s. Last year, according to the Combined Actuarial Performance Service (CAPS), UK equities showed a total return of 35.5 per cent, ranking them third-best performing asset category behind European and US

base-rate cuts, the historic dividend yield on the FTA-Allshare Index had risen to 5 per cent.

Yields at that level "are starting to represent good value," says Fleming's Mr Seabrook - a view presumably endorsed by the British Coal. In addition, institutions are still very liquid. In the third quarter of 1989, for example, UK institutions were net sellers of UK equities to the tune of \$20bn, and though they put \$1.1bn into the market in the fourth quarter, that was still only just over a third of the corresponding figure in the final three months of 1988.

The snag is that at a 5 per cent yield, the FT-SE 100 Index would have to rise 10 per cent over 12 months to beat the return on cash. That target could easily be missed, with corporate earnings growth slowing to perhaps 5 per cent this year, the possibility not only of a further rise in base rates but of more corporate disaster stories such as British & Commonwealth, and the chances of further cash calls following those from Rank Organisation, Reckitt & Colman and Rosebough. The real bears remember, too, that in 1974 yields went to 12.7 per cent.

The second factor is the clearer emergence of European equities as a competing asset category. To the extent that pension funds switched out of gilts and UK equities in 1989, European shares appear to have been the beneficiaries, with managers nudging up their asset allocation in that category towards the 10 per cent mark. True, European equity markets are as sensitive to rising bond yields as are those in the UK. But the 63.1 per cent return the CAPS figures show for European equities in 1989 means that a pension fund manager went underweight there at his or her peril.

A third issue is the striking evidence in 1989 of an increase in shareholder activism in the UK. In several major incidents - the most visible being the £13bn Hovlake bid for BAT Industries, and the attempted restructuring of British Land - institutional investors played a significant role in influencing management decisions.

In the BAT case, for example, it is an open secret that leading institutions including Legal & General and Postel did not hesitate to let BAT know that once the Hovlake bid had been launched, the company could never be the same again and that it had to start its own "unbundling" process. But what appears to be happening is not so much that institutions are becoming more militant, but that they are being confronted with bigger, more complex transactions which - like the debt-financed Hovlake bid - appeared to try to rewrite the rules of the investment game.

"We weren't going to let Hovlake rip up BAT, take a big turn, and give us in exchange some funny illiquid loan stocks which have no place in our portfolio," says one leading fund manager. What seems inevitable is that pension funds are going to have to get used to devoting more time to scrutinising company transactions and taking a stand when shareholder interests seem to be threatened.

Nick Bunker



Giles Wooster,
Pensions Investment
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What is indisputable is the scale of the long-term benefits funds have reaped from UK equities

equities. True, nearly half that performance - 17.4 per cent - came in the first three months of the year, and in 1988 UK equities ranked behind UK and overseas property, overseas equities and index-linked gilts. Looked at more long-term though, UK equities have outperformed all other asset groups on a five, six and nine-year view, and ranked second when using three, four, seven and eight-year time horizons. Most significant of all, for funds with sterling liabilities pegged to increases in wages and salaries, only twice in the last decade - in the British economy's boom years of 1987 and 1988 - have UK shares failed to outperform the other major inflation-proof UK asset category, real estate.

Hence the view of one leading fund manager, Robert Fleming's Mr Peter Seabrook, that a well-balanced portfolio should be "between 50 and 70 per cent invested in UK shares." In the case of the 131 pension funds Fleming manages in whole or in part, its recommended UK equity allocation has gone up from 57 per cent in mid-1985, to about 63 per cent now. Nor is this far out of line with the views of other fund managers. According to CAPS, at end-1989 the funds it examines had 57 per cent of their portfolios in UK equities, still a historic high, compared with an average percentage allocation in the low forties in 1982.

There are three factors, though, which complicate what looks, at first sight, like a relatively simple picture. The first, short-term issue surrounds the prospects for 1990. By late April, with retail price inflation poised to move above 10 per cent, wage demands showing little sign of moderation, and receding prospects of early

If you need to paint a rose, ask us first

"A large rose-tree stood near the entrance of the garden: the roses growing on it were white, but there were three gardeners at it, busily painting them red."

— The Queen's Croquet Ground



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PENSION FUND INVESTMENT 4

Michiyo Nakamoto on the slow development of pension funds in Japan, where life expectancy is the longest in the world

Legal changes usher in a new era of competition

FOR A nation that boasts the longest average life expectancy in the world, Japan has been remarkably slow in developing pension funds. The total amount of corporate pension funds, for example, is only ¥30,000bn.

Also, management of pension funds has been strictly regulated by government and has lagged far behind developments in comparable societies in the West. But with the introduction just this month of long-awaited legal changes, the potentially lucrative market for corporate pension funds is set to enter a new era of competition.

With the turn of the fiscal calendar in April, asset management companies have been allowed into a section of the corporate pension fund market that has been the sole preserve of a handful of trust banks and life insurance companies. The change will bring about 140 new contenders for new corporate pension fund business compared with only 17 trust banks — including nine that are foreign-affiliated — and 21 life insurance companies that were authorised to manage corporate pension funds under the old rules.

Typically, this liberalisation is not happening in a big bang sort of way, but cautiously, step by step. Newcomers are only being allowed to manage new money of employee pension funds that are at least eight years old. The new money that can be managed by investment fund managers must be in funds with at least ¥1bn in assets and should not exceed one-third of the total assets. The allocation of assets by fund managers will continue to be regulated by the Ministry of Finance which dictates asset mix guidelines, but these were partially relaxed in April.

In spite of these regulations, the rapid growth of the pension fund market, as the greying population in Japan continues to increase, means that the opportunities are immense.

The Japanese have a longer life expectancy than any other people in the world. In 1988, the life expectancy at birth of Japanese males was 75.5 years, while it was 81.3 years for females. This compared with a life expectancy of 71.8 years for

men and 77.7 years for women in the UK in a somewhat earlier study there.

Furthermore, in spite of their longevity, it is only recently that the Japanese have become seriously alarmed by the problems facing their greying society and there is still plenty of scope for new pension business. Only a third of the 28.8m individuals who belong to the government-sponsored welfare pension scheme also belong to a corporate pension plan, says an official at the Pension Fund Association's Pension Investment Department. Only 9 per

The rapid growth of the pension fund market means that opportunities are immense

cent of the 1.2m companies that qualify to establish a corporate pension fund, have done so.

Yasuda Trust and Banking, one of the bigger players in the field, expects the Japanese pension fund market to grow at an annual rate of 15 to 20 per cent for the next two decades. Last year over 100 new corporate pension funds were added to the 1,400 that existed.

Nobody, including the asset management companies, expects much of the new business to go to the newcomers. Japanese pension fund sponsors have traditionally allocated management business to trust banks and life insurance companies with which they have strong and extensive ties, ranging from mutual shareholdings to straightforward business transactions. Industry insiders tell the story of a fund sponsor that kept as its fund manager, a company with a particularly bad performance record because it had supplied them with land it needed for a particular business.

Japanese asset management companies, most of which are affiliated with the large securities firms and well-established banks, have the advantage, at least, of being able to use the ties of their parent companies. Foreign firms, however, will face substantial obstacles.

"We don't think we'll achieve instant overnight

success," says Mr Clifford Shaw, director and general manager of Warburg Asset Management in Japan, "but we already have our first client and we couldn't really ask for a better start."

Warburg, together with Fidelity International and Jardine Fleming Investment Advisors, became the first foreign asset management companies to be chosen to manage a portion of the Pension Fund Association's funds.

Japan Bankers Trust, Barclays Trust and Banking and J.P. Morgan Trust Bank will also manage a portion of the funds.

While it will be difficult for the newcomers, particularly the foreigners, to come in between the companies and the trust banks and life insurance companies, the Pension Fund Association's initiative will give at least a handful of foreigners the chance to prove their investment skills.

"If the results of foreign firms turn out to be good," says Mr Andrew Dalton, president of Warburg Asset Management in Japan, "there will be a momentum for further and swifter change and it will be very difficult to resist that momentum."

There are some signs that Japanese pension fund sponsors have begun to seek higher returns for their investments.

"From now on, performance will be the major criterion for

There are signs that pension fund sponsors have begun to seek higher returns for their investments

the choice of manager," says the official at the Pension Fund Association. Performance rankings of the trust banks began to be published just a few years ago.

The Japan Bond Research Institute has started to publish detailed analyses of fund managers while a number of consultants which advise sponsors on fund management performance have opened shop recently in Tokyo.

None the less, the doors to pension fund business are not going to fling open all of a sudden. "Even among the sympathetic companies it's

going to take time," says Mr Brian Matthews, president of Jardine Fleming Investment Advisors in Japan.

But the phenomenal growth rate of Japanese pension fund market makes breaking into the business "an extremely attractive goal of ours," he adds.

For the asset management companies, their ability to break into the pension fund market will depend mostly on their ability to provide evidence of superior performance.

This may not be too difficult especially for the foreign firms used to more stringent demands on performance in their home countries.

In Japan the level of contributions by individuals and companies is much higher than the level of investment returns, whereas the opposite is true in the UK.

Japan's trust banks and life insurance companies have not exactly had a sparkling track record to show for themselves, mainly because they have had to do little more than beat the 5.5 per cent annual target on realised profits.

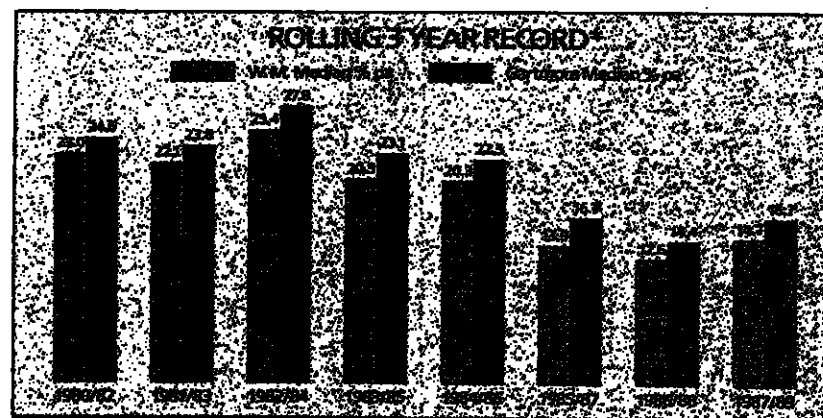
"Everybody has been paying out much the same," says Mr Stuart Matthews, financial analyst at Barclays de Zoete Wedd Securities in Tokyo.

The new element of competition introduced with the opening of the market should change all of this while the relaxation of asset mix regulations under the new laws, is likely to lead to greater differences in performance.

Under the new rules up to 50 per cent can be invested in equities or foreign securities or property, against 30 per cent under former rules. The remaining 50 per cent must be invested in principal secured assets.

The threat of competition has led the trust banks and life insurance companies to come out with new forms of pension fund investment schemes. Funds over eight years old with over ¥50bn in assets, can manage new money in-house and Mr Dalton thinks foreign firms could be approached by individual companies to manage a portion of those funds in areas in which they have particular expertise, such as European equities.

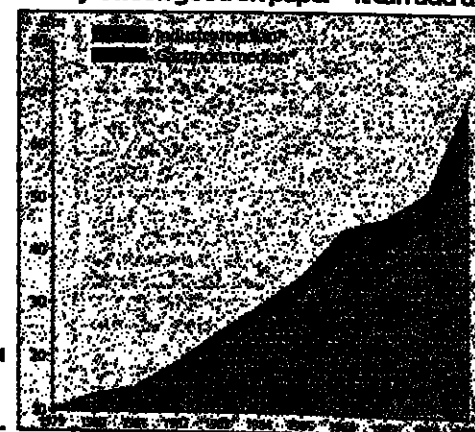
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CONTINENTAL EUROPE

First steps on a very long journey towards a single market

ATTENTION in Europe has been focused on the establishment of a single European market in 1992.

Although development is patchy, there are definite signs of movement in the formation of a single financial market, urged on by Sir Leon Brittan, the EC Competition Commissioner.

Under his direction, moves are now in train for a single market for pension funds, though as yet these represent the first steps in what is certain to be a very long journey.

In a recent speech in Brussels, Sir Leon Brittan set out the objectives for this single market as follows:

1. Full freedom of cross-border membership of supplementary pension schemes.

2. To ensure full freedom to provide the services of managing pension funds.

3. To open the possibility of creating a Community-wide pension fund.

Achievement of these objectives would open the door for UK fund management groups to market UK pension products, particularly individual pension contracts such as personal pensions, and to manage European institutional money.

However, there are a number of obstacles before these fund management opportunities can be realised to any great extent.

First, in most EC countries the vast majority of an individual's pension comes through the social security system.

Scope for supplementary pension provision by the private sector is often limited.

This is particularly so in countries such as France and Italy. The Netherlands is one country where supplementary provision is applied on a significant scale.

About a year or two ago, concern was being expressed in all leading European countries about the "Demographic Time Bomb" and its effects on the funding of social security systems.

Basically, the problem arises because the fall in the birth rate throughout Europe over the past decades is leading to an ageing population with fewer employed persons to support them.

And social security systems generally are financed on the "Pay-As-You-Go" system, with benefits paid from contribution income.

The combination of these two features is resulting in benefit costs rising dramatically.

ally, leading to steep rises in contributions required from the working population.

The standard answer put forward was to restrict social security provision and expand supplementary provision through the private sector operating on a pre-funding system.

Such a move to expand private-sector pension provision would open up investment opportunities for UK fund management groups, particularly global equity fund management.

However, like most problems not capable of a swift solution, the fears of the possible consequences have faded with time.

And other possible solutions are being considered, such as raising the retirement age - a solution not contemplated even a year ago.

Second, if supplementary provision is expanded, then in many EC countries this would most likely be done through insurance contracts from local-based insurance companies.

Certain UK life companies are establishing themselves in the EC, particularly in Spain, because they consider there will be an expanding market for their life and their pension products and the accompanying investment management services.

The concept of self-administered private pension provision is not so widely accepted as in the UK.

And where it does operate, such as in West Germany, then it tends to be funded through book reserves, a pseudo form of "Pay-As-You-Go", rather than pre-funded with a consequent need for investment management.

Other barriers to UK investment managers operating in Europe include the local taxation systems and local investment restrictions.

The International Committee of the National Association of Pension Funds feels that it is not possible to consider cross-border membership and pan-European pension funds until tax systems are harmonised - a pipe dream at present.

Nevertheless, the NAFF feel that much could be done towards common financial arrangements if withholding and other taxes on the income from EC investments are abolished for all recognised pension funds in the EC.

And the association also feels that local investment restrictions need to be eliminated.

These factors do not mean that there are no opportunities in Europe for UK fund management, but that progress will be extremely slow - a sufficient reason for UK management groups to get established early in Europe.

The final barrier is the general attitude of Europeans towards equity investment. By and large, they tend to be risk adverse, favouring bond investment and adopting a conservative attitude towards equity investment.

The first and biggest task of UK investment managers is to sell the equity concept to European financial institutions and the investing public.

But, if this marketing exercise can be achieved, then it is more straightforward for the UK managers to sell their global equity investment expertise, because of the relative inexperience in this field of European investment institutions.

The implementation of the UCITS (Undertakings for Collective Investments in Transferable Securities) has provided UK investment management firms with the opportunity to offer retail fund management services and products.

The general feeling among UK investment management companies is that it is going to be more productive offering retail investment services than trying to break directly into the institutional market.

A retail base can be exploited for a subsequent launch into institutional investment services.

Other UK investment managers, such as Henderson Administration, have also established operations in other European countries, particularly Holland.

This country has a financial services operation with some resemblance to the UK situation, including private company pension provision.

Henderson is now investing substantial sums in global equities on behalf of Dutch institutions.

But it describes the progress of its other European operations as one of gentle expansion.

It will receive a tranche of money from an institution, usually a bank, for investment in equities.

But it has no idea whether the investment is on behalf of individuals, other institutions or both.

And it is highly likely that such a route will be the norm for investment in Europe rather than the investor, whether individual or corporate, dealing direct with the UK fund manager.

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Karen Zagor investigates the expanding horizons in the US

Managers spreading their wings

THERE ARE signs that US pension fund managers are spreading their wings and expanding their horizons into international markets after many years of careful investments at home.

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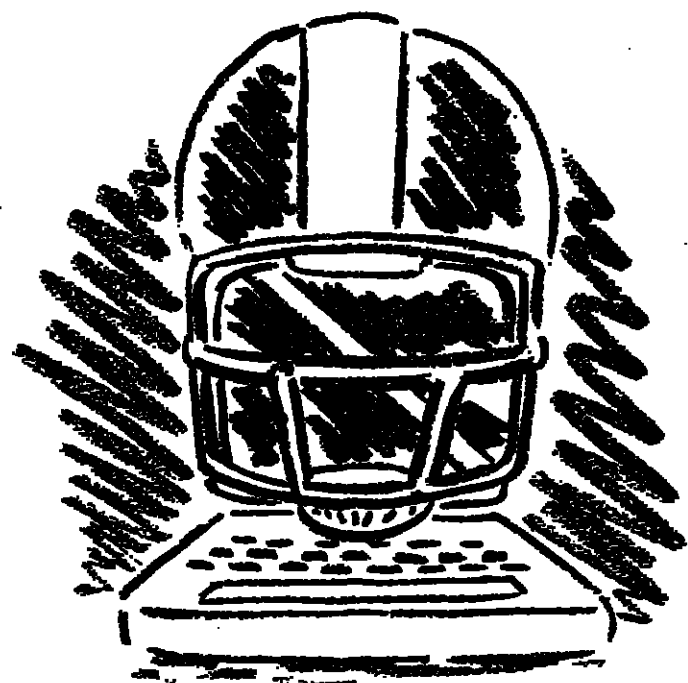
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PENSION FUND INVESTMENT 6

Barry Riley examines concerns over the measurement of performance

Figures that obscure the picture

IN THE pension fund business it would seem that performance statistics can prove almost anything. Certainly, there is enough concern about the measurement of fund performance for the National Association of Pension Funds to have set up a special inquiry into the subject.

Only a minor part of the anxiety relates to the actual process of measurement of the figures, although there are various annoying technical differences between the main performance services. There is more of a debate about how the numbers are presented by fund managers, and still more about how they are used by trustees and their advisers.

Who measures pension funds? One of the two specialists is WM, originally part of the Edinburgh stockbrokers Wood Mackenzie, but now metamorphosed into the World Markets company, under the ownership of the US wholesale banking group Bankers Trust. The other is Combined Actuarial Performance Services (Cape), the result of the pooling some years ago of the separate measurement services of actuarial consultants R. Watson, Mercer Fraser, Bacon & Woodrow and (more recently) Noble Lowndes.

In 1989, WM included 2,023 portfolios in its main service, worth £235bn in aggregate at the end of the year. It says these represented 77 per cent of the UK pension fund industry. Cape measured 1,594 funds worth £141bn.

There are a few other services, including those run by Wyatt and by Godwins, but these are small by comparison, and are more specialised.

The results of the two main services are not precisely similar. This is partly because of differences of coverage, with WM including several very large nationalised industry funds which tend to have a high property content (the WM funds held 9 per cent of assets in property at the end of 1989, against only 3 per cent for clients of Cape).

In 1989, the average WM measured fund showed a rate of return of 33.3 per cent, while the median Cape fund returned 31.5 per cent. The lower property content in the typical Cape fund explains some of the variation: excluding property



John Clapp: figures are sometimes misused

the returns were 31.6 and 32.0 per cent, respectively. There may also be some distortion from comparing a median and an average.

A further technical differentiation has, however, come to light because of the strange discrepancy in the measured rate of return on the FT-Actuaries All-Share Index, the conventional benchmark for UK equity performance.

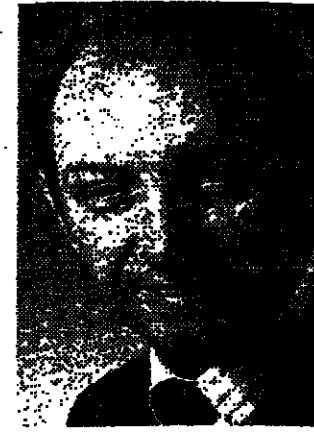
It might be thought that the performance of the index was common ground, but this is not so. In 1989, the index rate of return was 35.5 per cent according to Cape but 36.1 per cent according to WM. The gap, which arises from differing treatment of received dividends, is highly significant for index fund managers, who aim to track the All-Share return very precisely.

It appears that any difference will be much smaller in 1990, because Cape has changed its rate of return formula in favour of the ex-dividend method used for several years by WM, although

with various slight variations. To an extent, these technical disputes will need to be addressed by the NAPP committee. This is headed by Mr Maurice Stonecroft, who is in charge of British Rail's pension scheme. The committee has a year-end reporting deadline, and it is intended that its conclusions will be considered at the NAPP's annual investment conference next February.

Various subjects are potentially on its agenda. For example, there are complaints from the industry that the time-weighted rate of return calculations may not always be sufficiently precise, and the assumptions underlying them may vary, so that individual funds may get the wrong impression when they compare themselves to the indices and the median.

Also, it is alleged that the coverage of the two main services may be distorted by the selective withdrawal of poorly performing funds on a retrospective basis by fund managers on the grounds that they



Maurice Stonecroft (left) and Clive Gilchrist

are untypical. This, it is said, leads to the phenomenon of "median drift" whereby the historical performance for a particular year appears to move up over a period.

This is part of a general problem that as more funds over time become specialised, or subject to various investment restrictions, it becomes more difficult to justify their inclusion in the overall "universe".

Out of this arises the problem that the marketing departments of fund management firms can be highly selective in choosing funds which will determine their "median" or "typical" performance.

It is not necessarily the fault of the measurement companies if their statistics are insufficiently robust to stand up to the test of high-pressure salesmanship. They are commercial organisations, and are not always in a strong position to tell their clients how to use the information they produce. But one task of the Stonecroft Committee is likely to be to seek ways of laying down consistent standards for the presentation of performance figures by managers.

Certainly there are jealousies within the pension fund industry, which makes performance figures highly sensitive, and indeed the NAPP has felt obliged to set the committee up on an independent basis. Some leading consultants are privately very upset at the whole idea of a public inquiry.

Yet Mr John Clapp, chief executive of Cape, is ready to admit that performance figures are sometimes misused by investment managers, clients and consultants.

He is happy to co-operate with the inquiry. "We positively welcome it. Anything that can be done to clear the haze and mist surrounding per-

formance measurement is from our point of view to be welcomed," he says. Mr Gordon Bagot of WM also welcomes the investigation in principle.

In the wider world, the real significance of the Stonecroft Committee will probably come from its deliberations on the short-termism problem. Are managers assessed, and then hired and fired, on the basis of periods which are too short? If so, given the dominance of the stock market by pension funds and other similar institutions, the misuse of performance measurement statistics may be seriously distorting the whole capital market by forcing managers to focus unduly on near-term objectives.

Performance is conventionally measured on a quarterly basis. Nobody suggests that managers are hired and fired on such a timescale, but subtle pressures may be introduced. And certainly performance over a time-span of three to five years is highly influential in winning and losing business. Arguably even this is much too short a time horizon for judging the success or otherwise of pension funds.

"Trustees are supposed to be taking a sensible long-term view," says Mr Clive Gilchrist, chairman of the NAPP's investment committee. But he is concerned that, on top of the other pressures, the recent changes in accounting by companies for pension fund contributions, following the implementation of the accounting standard SSAP 24, will cause finance directors to seek to lift investment performance over the short run in order to increase earnings per share.

Quite a few different sectional interest groups within the pension fund industry will be waiting with keen interest to see what the Stonecroft Committee says.

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PENSION FUND INVESTMENT 7

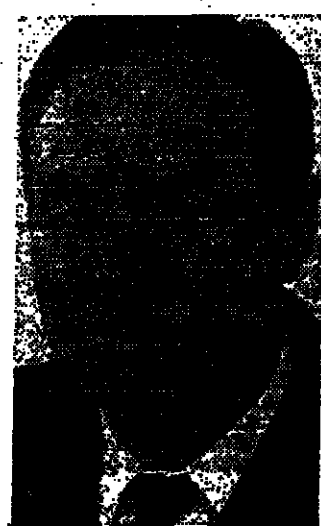
Andrew Freeman discusses quantitative techniques

Off-putting black-box image played down

THE steady movement of pension funds into techniques of investment management which rely to some degree on quantitative analysis has continued over the past year. However, as the market becomes more sophisticated, specialists and traditional fund managers are battling for control of the quantitative label.

The essence of quantitative fund management is its use of clear and discipline to control risk in search of the best returns. Managers and consultants suggest that up to £10bn of new money in the UK alone has been invested in quantitative products over the past five years. The Edinburgh-based performance measurement group WM Company's figures show that UK equity index funds now total around £17bn. Barclays de Zoete Wedd Investment Management (BZWIM) has around £5bn in this area.

The problem with any description of quantitative management is that what one fund manager calls Quant, another will dismiss as half-baked or as merely a disguise for an unaltered traditional approach. Increasingly, many balanced managers are incorporating a degree of quantitative analysis into an otherwise active approach. This usually



Paul Woolley: founder

involves some form of so-called screening, using price or value data to produce lists of recommended stocks from which portfolio selections are made.

To specialist managers, such as the recently-formed Panagora Investment Management, such an approach is rarely backed by a consistent quantitative discipline. They argue that Quant can only flourish when it is divorced from traditional asset management.

However, demand for purely passive investment products, such as index funds, is as strong as ever, and UK funds are showing more interest in international index funds.

Fund managers are in broad agreement that widely-defined quantitative management is still seeing substantial new flows, with most money going into index funds. Resistance from trustees has gradually wilted under pressure from several powerful arguments.

First, traditional balanced managers have not performed well over the past five years against the various index benchmarks. Second, there are persuasive cost-saving arguments. Third, Quant managers have proved more adept at marketing and have played down the off-putting black-box image of their business in favour of simpler arguments.

Within indexation, managers describe a trend towards international equity products where the recent performance figures make a compelling case. Most UK funds would improve the performance of their international assets by indexing at least a portion of their fund.

Consultants, accused by some fund managers of taking a long time to advocate Quant to clients, are now incorporating indexation in their

long-term advice and asset-liability studies.

There is resistance from many funds, however, mainly because of an abiding fear of the Japanese market. Japan was mainly responsible for the strong performance of international markets in the 1980s, but its short-term collapse this year might serve further to put off hesitant funds.

According to Mr Robert Browne of County NatWest Investment Management, a special screening fund uses eight different screens in four categories to select stocks. "The investment process is very clear in terms of explaining decisions to clients," says Mr Michael Banton.

In back-testing this approach, Barings found a negative correlation with its traditional balanced management and decided the volatile screening model could be used to increase diversification.

A surprising number of trustees would still query a Quant approach, and according to consultants there are cases where a fund has indexed most of its assets while retaining balanced managers to handle the rest of the portfolio.

Quantitatively-based asset allocation models have become a permanent feature of the pension fund investment scene

which, in addition to multi-variable analysis and optimisation, exploits the insight that returns on equity have a strong tendency to regress to the mean. In other words, both negative and positive growth rates on individual stocks tend to be extrapolated too far into the future by most investors.

More and more active fund managers are driving stock-picking products with Quant fuel. For example, at Barings Investment Management, a special screening fund uses eight different screens in four categories to select stocks.

"The investment process is very clear in terms of explaining decisions to clients," says Mr Michael Banton.

In back-testing this approach, Barings found a negative correlation with its traditional balanced management and decided the volatile screening model could be used to increase diversification.

Quantitatively-based asset allocation models have become a permanent feature of the pension fund investment scene

in the US and many UK fund managers are now aggressively marketing such products.

It is widely accepted that short-term asset allocation decisions do not add consistently to long-term performance, but the relative scarcity of experienced asset allocation advisers has made this a difficult area for many trustees. The temporary decline of fixed-income instruments as a key asset class for pension funds has been a welcome trend, simplifying the asset allocation question.

The cultural problems once faced by Quant managers operating within a larger traditional investment house have diminished somewhat as more applications for Quant have become accepted.

As Barings' Michael Banton says: "In the US, there are hardly any examples of houses which have successfully combined Quant and traditional management. But it's an artificial distinction anyway. All fund managers should use some degree of Quant."

Specialists might disagree, arguing that Quant cannot be squared with traditional management. Trustees will see plenty of argument before that debate is finished.



Michael Banton: the investment process is very clear

DERIVATIVES

Pushed into the limelight

AT THE annual conference of the National Association of Pension Funds next week, fund managers will be tempted to put their cash into the high returns of futures and options with the launch of two dedicated funds. Changes in the law have made derivatives a viable investment for pension funds and the market is eager to encourage them.

The Rudolf Wolff Futures Trust and Excalibur, a futures fund created by Paine Webber, are both due to be launched at the pension funds conference in a bid to entice fund managers into an unfamiliar area.

The Robert Fraser Guaranteed Futures fund is already talking to some of the biggest pension funds since its launch at the beginning of the year. It is an uphill climb to overcome the innate conservatism of many fund managers.

Nevertheless, derivative products have been thrust to centre stage this year since UK regulators drafted rules for the creation of futures funds and Mr John Major, the UK Chancellor of the Exchequer, altered the tax treatment of futures. These developments have increased the access of pension funds to the multi-billion dollar derivatives market.

Above all, the tax changes have removed a psychological barrier to the involvement of fund managers in the futures markets. The changes which were laid out in the recent UK Finance bill, should remove the uncertainty from managers' minds that they will be

futures markets which will cut down the costs of dealing for pension funds.

Mr Trevor Pullen, director of Prudential Portfolio Managers, the investment arm of the insurance company, says the changes will allow him to take a shorter-term view of the market. It will mean he can leave his painstakingly constructed portfolios of equities intact and move his exposure with the use of futures.

Mr Pullen estimates that commissions in the stock market cost him an average of 2.5 per cent per transaction, while in the derivatives markets they are closer to 0.1 per cent, meaning futures are a much more cost-effective way for him to manoeuvre his holdings.

While the tax changes will enable pension funds to do much more with derivatives for their own accounts, new regulations on futures funds will open up to them the \$8bn market in managed futures. The rules allow the creation of authorised futures funds in the UK - products which have achieved immense popularity in the US.

Pension funds will be able to create these funds and sell them to retail investors, but they will also be encouraged to invest in funds targeted at institutional clients. The Robert Fraser, Rudolf Wolff and Excalibur funds have all been set up to exploit this new area and are being marketed heavily.

These three funds have been set up outside the new regulations as unauthorised futures funds which means they can be sold only to institutional investors. The new funds are cashing in on the wave of interest in futures funds before the new regulations become law at the end of the year.

The Robert Fraser fund which is already in existence is directed at the most conservative of pension funds since it offers them a chance to customise the risk profile for individual institutions. This is a key to hooking the interest of the pension funds since they remain extremely wary of futures contracts. In addition, the fund provides a guarantee for a return of principal after four years, which is a comforting element for managers.

It will take some time for pension funds and unit-trusts to throw themselves wholeheartedly into the futures and options market, but their interest is certainly real. When James Capel, the UK brokerage house, held a seminar recently to explain the draft regulations on futures funds, it attracted more than 50 pension fund and unit trust representatives.

The creation of futures funds could prove a lucrative area for pension funds since these instruments have proved so popular abroad. Until recently, the only way to sell them to individual investors in the UK was to set them up offshore.

Last year Mercury Asset Management, a subsidiary of SG Warburg, raised \$50m in six weeks for an options income fund it created in Luxembourg. The company is understood to have tried hard to set up the fund in the UK, but was thwarted by tax and regulatory obstacles. With this sort of money now available to UK pension funds, it is not surprising they have all started to position themselves for the onset of a totally new market.

Deborah Hargreaves



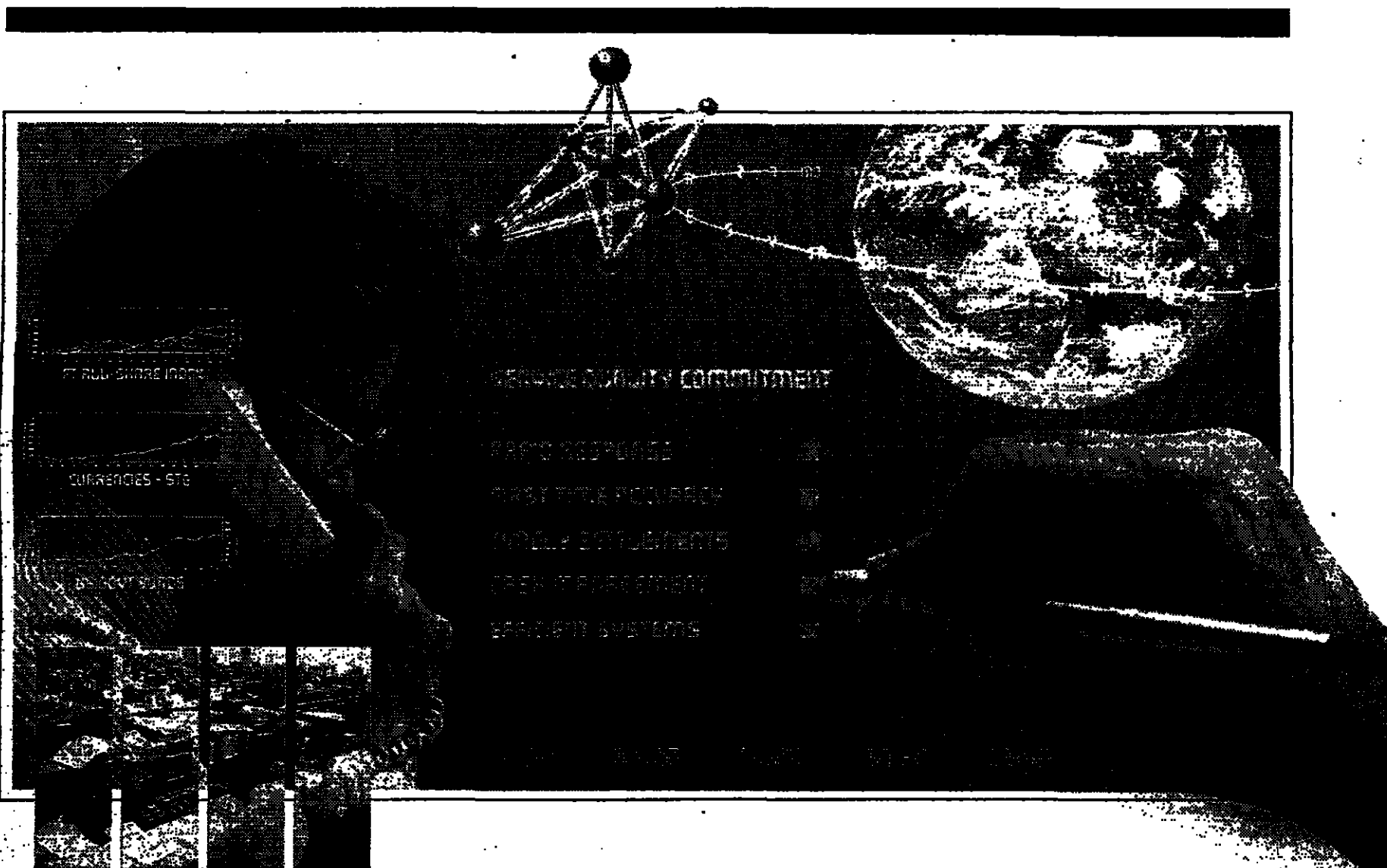
Trevor Pullen

struck with a large tax bill for their futures transactions.

The problem for pension funds and unit trusts centred on their tax status and left them with the responsibility to prove they were using the markets for being purposes and not trading. By trading futures, fund managers were previously liable to pay corporation tax on gains.

Mr Major has now removed the spectre of a tax charge from pension funds and unit trusts and has made trading income from futures and options transactions exempt from tax. In doing this he went even further than London's markets had hoped in clearing the path for a large-scale involvement by pension funds.

The changes mean pension funds can make anticipatory hedges without holding the underlying instrument. For instance, they will be able to buy call or put options without holding the underlying stock - often a much cheaper way to gain exposure to the equity market. In addition, commissions are much cheaper in the



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PENSION FUND INVESTMENT 9

PERSONAL PENSIONS

Rush did not materialise

LIFE ASSURANCE companies have had a virtual monopoly in the provision of personal pensions since the earliest versions were launched in 1964.

Over the next 20 years the plans were hoped and adjusted in the light of changing legislation and consumer demands to evolve into the highly sophisticated and flexible schemes available today, with over 100 life offices in the market.

A revolution overtook the personal pensions market in the mid-1980s as Mr Norman Fowler, then Secretary of State for Social Services, revised the way in which pensions could be provided to individuals. He made sweeping changes which affected people in company pension schemes, giving them the right to leave a company scheme and start their own personal pension.

In spite of two false starts, new-style personal pensions were launched in July 1988, along with the facility for new providers, previously excluded, to offer personal pensions for the first time. These included banks, building societies and unit trust groups.

The anticipated rush of new providers into personal pensions has not materialised. Doubly handicapped by a market saturated by the life offices, and restricted to levying only small contribution charges on their pension plans, the unit trust groups have been slow to respond to the opening up of this market. And in spite of the long track record of some of the corporate pension fund managers,

very few of them seem interested in the retail sector.

For any new provider, the costs of entering the retail pensions market can be high. However, there are other ways of getting a toe-hold in this potentially lucrative sector without incurring large start-up costs. Phillips & Drew Fund Managers, the second largest corporate pension fund manager, has entered it indirectly by providing fund management for Devonshire Life's own life and pensions plans. Devonshire was taken over last year by American Express, and changed its name to Accura.

Other corporate managers have established links with the retail market by offering a range of funds to life offices which have ready-made distribution outlets and administration systems. With this arrangement everyone benefits: the unit trust groups get access to the personal pensions market at minimal cost, and life companies are able to offer a much wider range of funds.

Skandia Life, for example, offers a range of 230 funds via its links with 12 different unit trust groups. Buyers of the personal pension can switch not only between a unit trust group's funds, but also between different unit trust groups.

One of these, Fidelity, is on the list of both Skandia and Professional Life, which Skandia took over last year. As Framlington Life. In addition, Fidelity is one of only a handful of unit trust groups that have entered the personal pensions market in its own right.

Fidelity, along with Midland Bank and N.M. Rothschild, came into the retail market at the very first opportunity in July 1988. It is not worried about the market being saturated by the life offices, seeing itself as a niche player. It offers a single contribution plan with a minimum of £2,000 which can be topped up with a minimum of £200, thereby limiting its costs.

Gartmore, which came into the market in November 1988, does not use its range of retail unit trusts for personal pensions - it uses a separate range managed by the same team that manages the corporate pension fund side.

Gartmore offers two novel concepts on its personal pensions. It offers a programmed series of switches throughout the term of the pension up to retirement. The older the individual, the less is invested in equities as more is moved into cash. There is no extra charge, and the individual can override the automatic switching.

The other novelty is a link with Swiss Life announced recently enabling Gartmore to provide a range of benefits not offered by unit trust groups alone; these include the facility to waive premiums in cases of ill health and tax efficient life insurance cover.

Mercury came into the market in October 1989, and unlike the other new providers in this market, opted to set up its own life company to offer personal pensions. In this way it can get around the charges problem, and also offer the range of benefits which can only be provided by a life office.

N.M. Rothschild, an early entrant to personal pensions, "wanted to be in the retail market, looked at PEPS, but decided not to go for that". It needed a vehicle to sell unit trusts and the new personal pensions "seemed a good bet". Like the other unit trust groups, it has no sales force, and does not direct response advertising for its personal pensions. Instead, it relies on independent intermediaries.

Yonche Remnant, which entered this market just over a year ago, aims to appeal to the sophisticated investor.

Janet Wallford

Editor, Money Management

WITH THE Financial Services Act bedded down and, by all accounts, working smoothly for occupational pension schemes, the main regulatory issue facing such schemes comes from a different direction: the Social Security Bill.

The plan to limit investment by pension schemes in their "parent" companies to 5 per cent of scheme assets is likely to cause problems for a minority of schemes, particularly those which have invested in property which takes them above the 5 per cent ceiling.

Concern about self-investment has arisen from the potential conflicts of interest that can arise when the company is subjected to an unwanted takeover bid.

"Our conclusion was, don't get yourself into that position," says the National Association of Pension Funds, which brought out its own guidelines on self-investment 18 months ago.

The Government's definition of self-investment is widely drawn: besides taking in shares, loans and property investment, it includes any money owed by the company to the scheme, for instance because it is late with contribution payments. This contrasts with the definition in the NAPF's own guidelines, which recommends a maximum of 2 per cent - but effectively covers only shares in the company.

The 5 per cent ceiling could cause a problem for a significant minority of schemes. On the one hand, divesting them-

Richard Waters on the regulation of pensions

Self-investment concern

seives of shares between now and the expected implementation of the 5 per cent rule - the end of 1991 - should cause few problems, says the NAPF.

However, property investments are less easy to shift. Without adequate transitional arrangements, schemes caught in this position could be forced in sales - to the detriment of their members.

Part of the problem is that little is known about how many schemes will be affected, and how seriously. The NAPF's latest information suggests that the problem does not run deep.

Around two out of every five trust deeds allow self-investment, and a quarter of funds go in for some form of self-investment (in the wider sense), it says.

Most fall below the 5 per cent ceiling, though a handful have invested anything between 5-20 per cent of their funds in their company. The Government is to undertake its own research during the summer.

Self-investment, meanwhile, is largely outside the scope of the Financial Services Act. The act is likely to come into play only if an investment infringes the requirement for "suitability" - an unlikely occurrence. "It would have to be fairly

clear case of unsuitability before our rule was breached," says Mr Ronald Smith, director of operations at the Investment Management Regulatory Organisation.

IMRO's attitude to self-investment reflects its general approach to the interaction of the Financial Services Act with the trust law which governs pension scheme investment. Any attempt by the FSA regulators to extend their reach more fully into areas covered by trust law would greatly complicate matters without adding to the protection of beneficiaries, it believes.

The Financial Services Act regime has, by all accounts, settled down with few problems. Under section 191 of the act, trustees who do not take day-to-day decisions about the investments in their funds are exempted from the full rigour of the regime, but are subjected to the lighter touch of chapter 11 of IMRO's rulebook.

There were fears that the expression "day-to-day" would prove a trap for unwary trustees, catching out some who thought they had no need to be regulated. However, IMRO says it has had no cases so far of trustees not being registered when they should have been.

Elsewhere, the main regulatory issue of recent months has

been that of soft commissions - that is, arrangements under which investors direct their business to particular brokers in return for specific services. Such arrangements bring concern that investment managers might lose sight of their clients' interests, and that some of the services on offer have not been as closely linked to helping investment managers make decisions on behalf of the clients as they have should been.

The Securities and Investments Board last autumn shied away from proposing a ban of soft commissions, but suggested fuller disclosure of these arrangements to clients. It also proposed a ceiling of 25 per cent on the proportion of business an investment manager conducts with soft commission brokers rather than so-called "traditional" brokers.

The SIB is due to publish its latest thoughts on this subject during the coming weeks. The most significant change is expected to be the abandonment of the 25 per cent ceiling - something which the SIB admitted from the start was arbitrary in any case, and which has aroused accusations from soft commission brokers of anti-competitive rule-making.

In a further change of tack, the proposal that trustees should themselves be required to give business to a particular broker in return for performance measurement information, such as that provided by WM, is expected to be dropped. The SIB's objective of encouraging disclosure of soft commission arrangements, though, has received widespread support.

Meanwhile, many occupational pension schemes have recently been experiencing their first taste of the Financial Services Act at close quarters. IMRO has directed its regular inspection visits to these schemes for the first time - reflecting the fact that this is not considered by the regulators to be a high-risk area.

IMRO's conclusions after its first series of visits was that most schemes are well run, although some need to improve their operations. The most common complaints are inadequate record keeping and a failure to ensure that all staff are adequately trained.

RELATIONS between institutional investors and the companies whose shares they own have never been devoid of tension. But at the start of the 1990s they appear to be at a notably low ebb.

Mr David Hopkinson, former chairman of M & G Investment Management, has referred to "a deplorable decline in relations between the City and industry during the last three years." His remarks have been echoed by other leading figures in finance and industry.

Some degree of tension is probably an inevitable consequence of the divorce between ownership and control in industry. That said, the sourness that characterises relations between the City and industry is a legacy of an exceptionally frenetic takeover period in the 1980s. The market in corporate control in Britain is the least constrained in the world; and since Mr Norman Tebbit's brief tenure as Trade Secretary references to the

John Plender looks at relations between investors and companies

A certain sourness in the City

Monopolies and Mergers Commission have been governed largely by competition criteria instead of more nebulous considerations of public interest.

This policy rests on the assumption that UK's economic interests are best served by allowing companies to be controlled by those who value them most highly. The results are sometimes disconcerting even for free market industrialists and fund managers.

What good does it do Rowntree, which has successfully built up new confectionery brands over long periods in the UK, to be taken over by Switzerland's Nestlé, whose own efforts to build brands in the same market have been notably less successful? What is Mr

Roland Franklin, best known for his role in the disastrous secondary banking fiasco at Keyser Ullmann in the 1970s, able to offer DRG, a paper and office equipment group that was regarded as having largely put its house in order?

Such questions can be raised in numerous other cases. And the investment institutions are usually blamed for accepting the predator's offer on the basis of short-term performance criteria. But the real problem lies in the difference between the basis of company valuation in the takeover market and the much lower valuations that apply when shares are being traded day to day.

The knowledge that the premium for control of the target

company will disappear if the bid fails, causing the share price to fall sharply, means that fund managers cannot lightly spurn a contested offer, especially when it is made, as at DRG or Rowntree, in cash.

This is not the only way in which the chain of accountability from managers to owners works in a haphazard fashion. Many fund managers acknowledge that they have been too prone to rely on takeovers as a last-ditch remedy for problems that could have been addressed through more direct intervention in the boardroom. Cases such as T & N, the construction materials and motor components group where the Prudential spearheaded a boardroom coup, are rare.

Missed opportunities are easier to identify. Distillers, Plessey, Chloride and Stora-house are obvious examples of companies that might have benefited from earlier institutional intervention. And there are still a number of diversified companies that might benefit from the kind of treatment that Sir James Goldsmith's Haylake consortium had hoped to impose on BAT Industries.

Many institutions are unhappy about the SmithKline Beecham merger. Few, on the other hand, second-guess management on such a large strategic move in a sophisticated industry. Even when the institutions do have the expertise to tackle management on an equal footing, there may be

other reasons for non-intervention, as at Pearl Assurance.

Pearl succumbed to a predatory offer that some thought unduly cheap. It was thought to have hidden its light under an actuarial bushel. Yet its earnings performance was arguably too good to make intervention justifiable. Since Pearl was an insurance company there was the old misgiving about dog eating dog.

Conflicts of interest may also play a part. Fund managers in merchant banks have rarely been active interventionists, partly because they have been reluctant to alienate the bank's corporate finance clients, actual and potential. And while such reticence ought in theory to have disappeared as a result of the creation of Chinese Walls, fund managers admit in private that the constraint still exists.

There are, then, limits to the extent to which the institutions will turn themselves into successful productivity chasers

in UK industry. The political climate, under Mrs Thatcher, has anyway been unsympathetic to activities that smack of paternalism or nannyism. And much of the emphasis in recent institutional interventions has been directed towards purely financial considerations.

Arguments about pre-emption - the shareholders' right to have first bite at the cherry when companies issue fresh equity capital - are close to the hearts of many institutional investors. So, too, are the rules governing executive share option schemes. Both can lead to the dilution of the institutions' stake in UK industry and they have been reluctant to make concessions on this score unless they are offered something tangible. The institutions' cautious attitude to leveraged buy-outs in the UK has probably saved the financial system from a much bigger debacle than it might have suffered if the US model had been imitated.

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PENSION FUND INVESTMENT 10

Barry Riley examines the charging structures of external managers

Gloomy outlook for more transparent fees

HOPES THAT that the charging structure of external managers of UK pension funds would become more transparent, or "cleaner," are being dashed.

When the stock market's Big Bang reforms were implemented in October 1986 there were expectations that double charging practices would be terminated. Before Big Bang many pension fund managers dealt in bulk for several clients at the lowest commission rate, then charged a higher rate appropriate to smaller deals when parceling the shares out to individual client portfolios, a practice known as aggregation or continuation. After Big Bang this ceased to be possible because the fixed commission scale was abolished. The expectation was that managers would be forced to charge much higher "clean fees."

Generally, it has not happened, although several managers have offered alternative charging scales. Last June, for example, Hill Samuel announced a scale of clean fees, about twice as high as its normal basis.

Average published direct fees received by UK pension fund investment managers are about 0.2 per cent. That compares with a figure nearly twice as high in the US. But UK schemes are not getting a cheap deal. Most of the gap is filled by extra charges. However, most British managers include custody at a bundled service, whereas US pension plans pay separately.

It is hard to blame fairly for the confused state of affairs in the UK. Managers must be largely responsible. But all too often their clients have their own good reasons for buying costs within their funds.

"We prefer to collect our fees in an open way," says Mr Colin Day, chairman of the pension fund business at Henderson Administration. "But clients don't always want it like that. Also, you can't always stand out against double charging on principle in a commercial market place. Clients don't like getting an invoice."

Consultant Mr David Hager, of Bacon & Woodrow, has collected some fascinating statistics on the charging jungle. He finds that a £100m fund managed by one of the 10 largest managers will probably be pay-

ing a nominal fee of about 0.16 per cent, but total costs to the client will in reality be nearly twice as high, at 0.31 per cent.

These figures include stock-broking commissions as part of the costs. It may not be entirely fair to regard these as expenses of investment management, in that they are not received by the managers. But it is possible to avoid them, at least in the UK, by dealing on a net basis directly with market makers. This would eliminate the possibility, however, of partially clawing back "soft" commissions in the form of services provided by the brokers or paid for by them. Even excluding commissions, costs for the £100m fund are around 0.25 per cent, or over half as much again as nominally quoted.

One extra charge commonly imposed is on overseas dealing. Typically, 0.5 per cent is charged on purchases and sales of overseas equities, and while trading overseas may genuinely involve extra expenses, these are not necessarily always fully in proportion to the revenue gained.

During the 1980s holdings of foreign equities have greatly expanded, so these dealing charges have become much more important. One way of looking at it is that balanced fund managers in the UK are increasingly providing an expensive global service for their UK pension fund clients, but are still nominally charging UK-related fees.

One danger of double charging is that there may be an encouragement for managers to engage in excessive overseas trading activity. According to the official publication *Financial Statistics*, the foreign equity portfolios of UK pension funds are turned over more than twice as rapidly as their domestic equity holdings.

Managers also have another way of creaming off extra revenue from overseas investments, by channelling them through unit trusts. These carry annual management charges of 1 per cent or even 1.5 per cent, dwarfing the regular management charges, which at least are generally rebated in respect of these elements of the portfolio.

There may indeed be good reasons for putting clients into unit trusts or for turning over

foreign equity portfolios rapidly. Mr Hager is critical of the practices that have emerged. There is, he says, overuse of unit trusts. He fears that the recent limited approval by the Securities and Investments Board of soft commissions will add a new legitimacy to a controversial practice.

Unless a line is drawn, clients are likely to find that more of their portfolios are directed into doubled-charged investments. Some managers are setting up unit trusts for foreign bonds and even UK gilt-edged. The next step could be that many UK equities will be handled through "specialised" unitised funds. There is more transparency in the alternative

approach of putting most of the money in core index funds, and the balance with specialised active managers. Fees here are more honest, and have become highly polarised.

Something of a cut-throat battle is going on between index fund managers. According to Mr Hager: "There are a number of people in the market who will not be undercut." Anything down to 0.03 per cent has been negotiated, although for overseas index funds the fees are a little higher, in the 0.10 to 0.15 per cent range for larger funds.

Specialised active managers are at the other end of the scale. Fidelity, in particular,

has aroused the grudging admiration of other managers for its insistence on high fees, often over 0.5 per cent, backed by a refusal to negotiate.

At this end of the market performance counts for everything, and indeed there is increasing discussion of the merits of performance-related fees. At present such fees are thought to apply only to about 5 per cent of funds, and a much lower percentage of overall pension fund assets.

The common practice is to set a base fee level and link bonuses either to index targets, for specialised funds, or to league table objectives (such as top quartile performance) for balanced managers.

These arrangements appeal to corporate clients who are used to sharing risk with suppliers in other fields, and see no reason why pension fund managers should be different. But the incentive effects of performance-related fees will always be controversial.

One "boutique" which has placed a particular stress on performance-related fees is Newton Investment Management.

With a claimed chart-topping median return of 38.5 per cent in 1989 on its £200m of aggregated client funds Newton is clearly doing well. But to smooth out the impact the fees are calculated on a rolling four-year basis.

Total costs of investment management to the client				
	£10m fund		£100m fund	
All managers on Bacon & Woodrow Database				
	£	% of fund	£	% of fund
Direct fees	36,000	0.36	174,000	0.17
UK commissions	1,000	6,000	55,000	22,000
Overseas charges	3,000	8,000	52,000	18,000
Overseas commissions	8,000	58,900	9,000	330,000
Unit trust fees	2,000	0.56	330,000	0.23
Administration	58,900	0.47	224,000	0.22
Total excluding commissions	47,000			
The 10 largest managers				
	£	% of fund	£	% of fund
Direct fees	40,000	0.40	166,000	0.16
UK commissions	2,000	2,000	41,000	52,000
Overseas charges	2,000	12,000	40,000	52,000
Overseas commissions	2,000	58,900	9,000	330,000
Unit trust fees	12,000	0.56	314,000	0.21
Administration	58,900	0.54	252,000	0.25
Total excluding commissions	54,000			
Source: Bacon & Woodrow				

Source: Bacon & Woodrow

Brokers' complaints are getting louder, says Richard Waters

Frustrated by the flow of commissions

where three houses (Warburg, BZW and Smith New Court) account for over half the market. But there is little sign of that happening for agency business. "There is little talk of commission rates actually rising - except in smaller, less well-researched stocks."

The brokers' arguments run as follows. Without more commission income, they are unlikely to be able to sustain a high research service. Top class analysts are increasingly shifted on to corporate finance work to earn their keep.

That, the argument runs, is bad for clients for several reasons. The analyst is no longer able to devote as much time to institutional clients. He loses the confidence of institutions, which in turn makes him less attractive to companies, who talk to him less, leading to a declining spiral in which the analyst loses his prominence.

"Institutions like competition. But if it is too fierce, they may simply not be able to get a good service anymore. It can't be in their interests to see the best analysts spend more and more of their time in corporate finance," warns one large broker whose analysts are heading that way. "The best institutions are sensitive and aware of the potential danger."

With commission rates

unlikely to rise, greater market share remains the goal. Winning more of the business achieves two ends - lifting income and helping to squeeze less successful firms out of the market. That in turn eases the competitive pressure, and is more likely to lead to the long-term return to higher commissions for which brokers hope.

Investors continue to be largely unmoved by brokers'

The large brokers want a bigger slice of the cake

concerns. They continue to complain that the average UK research offered by brokers is sub-standard (while acknowledging that there is very high-quality work around in some quarters). They argue that if stockbrokers let their costs run out of control after Big Bang and are now paying the penalty, that is their own fault. Furthermore, while they make little on UK equities, brokers still make a healthy living from foreign stocks and derivative products, and it is investors who ultimately bear that cost.

The true cost to institutions of their dealings with brokers

is not immediately evident, says SEI, a company which has been assessing dealing costs in the US for the past 10 years and is about to launch a similar service in the UK. According to the company, investors may have paid lower commissions in the US in recent years, but other dealing costs have risen to compensate. Institutions can only really evaluate the costs of their dealings with brokers/dealers if they look at the complete picture, SEI says.

Such ideas, if they catch on, could help to keep securities firms' profits under pressure for some time to come.

While this is going on, there is little sign of institutions putting more effort into cutting out the middleman and researching stocks themselves. As one broker comments: "Their cost pressures are as intense as ours."

The test of this is the extent to which institutions deal net, without paying commissions. The indications here are that the amount of business done net is not rising, but if anything declining. The Stock Exchange's annual survey of transactions in UK equities shows that 24 per cent of client deals (by value) was undertaken without commission in June 1989. A year before, the figures was higher, at 27 per

cent. This picture is confirmed by brokers, who say they continue to notice no decline in the proportion of business which carried commissions with it.

Meanwhile, brokers are being forced to pay more attention to the desirability of continuing with unprofitable business. At least one large house says it is working on a management information system that would tell it the profitability of each client. Costs such as

analysts' and salesmen's time, and settlement, will be set against the income from each client.

Armed with this information, the broker expects to challenge unprofitable clients to pay up or look elsewhere for investment ideas.

Such tactics are all part of the effort to encourage investors to pay more. Unless they do, claim brokers, the quality of research in London will inevitably decline.

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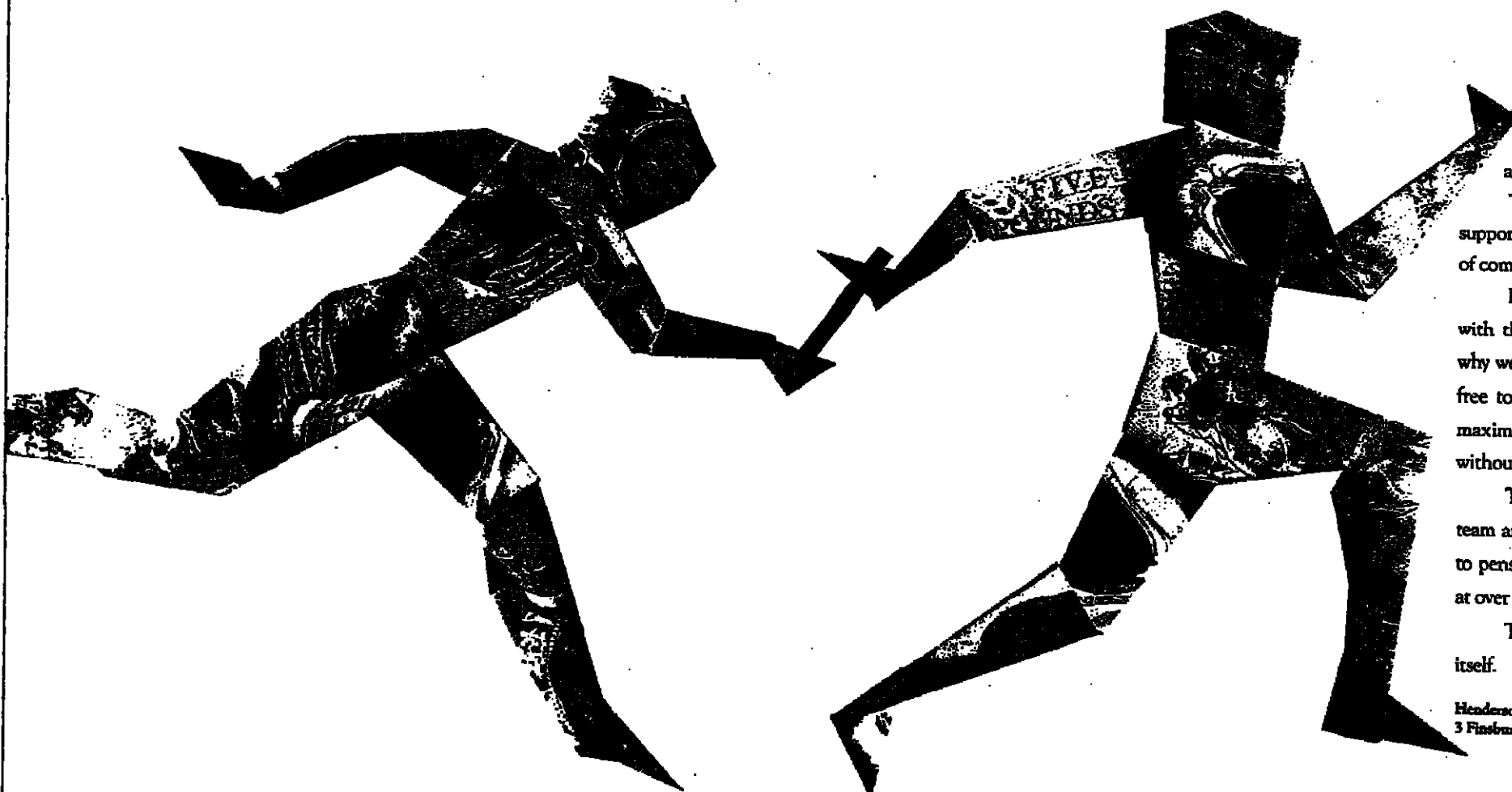
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